

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Grand Blanc	County Genesee
Fiscal Year End May 31, 2006	Opinion Date July 27, 2006	Date Audit Report Submitted to State October 4, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

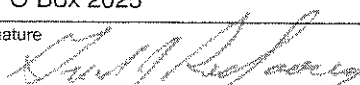
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989 799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 	Printed Name Gerald J. Desloover, CPA		License Number 1101007126



City of Grand Blanc, Michigan

Comprehensive Annual Financial Report

For the Fiscal Year
Ended May 31, 2006

**CITY OF GRAND BLANC, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED MAY 31, 2006
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**CITY OF GRAND BLANC, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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List of Officials

Mayor

Michael N. Matheny

City Council

D. Keith Baldwin
James E. Bappert
John A. Freel
Connie S. Lesley
Susan J. Soderstrom
William P. Turk

Administrative Officials

Randall D. Byrne - City Manager
Richard Saathoff - City Clerk
Bethany J. Smith - City Treasurer
Ted Sczetpanski - Building Inspector
James B. Harmes - Fire Chief
Mark D. Heidel - Police Chief
Matthew S. Wurtz - Public Works Director

Independent Auditors

Rehmann Robson

Report Prepared By

City Clerk/Finance Department



City of Grand Blanc



203 East Grand Blanc Road • Grand Blanc, MI 48439-0846 • (810) 694-1118 • Fax (810) 694-9517

MAYOR
Michael N. Matheny

CITY COUNCIL
D. Keith Baldwin
James E. Bappert
John A. Freil
Connie S. Lesley
Susan J. Soderstrom
William P. Turk

CITY MANAGER
Randall D. Byrne

CITY CLERK
Richard Saathoff

CITY TREASURER
Bethany J. Smith

CITY ASSESSOR
Marie Collias

CITY ATTORNEY
Walter P. Griffin

July 28, 2006

To the Mayor, City Council, and the Citizens of the City of Grand Blanc:

The Comprehensive Annual Financial Report (CAFR) of the City of Grand Blanc for the fiscal year ending May 31, 2006, is hereby submitted. The responsibility for the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. The administration believes that the data, as presented, is accurate in all material aspects, which is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial status have been included.

The City of Grand Blanc's financial statements have been audited by Rehmann Robson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Grand Blanc for the fiscal year ending May 31, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Grand Blanc's financial statements for the fiscal year ending May 31, 2006, are fairly presented in conformity with GAAP.

Since the report consists of management's representations concerning the finances of the City of Grand Blanc, a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for preparation of the City of Grand Blanc's financial statements is used. However, due to the fact that the internal control systems should be cost effective, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement.

Profile of the Government

The City of Grand Blanc was founded in 1930 and celebrated its 75th Anniversary in 2005. The City is a 3.7 square mile community located in southern Genesee

County, Michigan in an ideal location; minutes from three (3) major expressways that connect the City to cultural centers and the industrial centers of Michigan as well as the rest of the country. The City is located 10 miles south of Flint, 50 miles north of Detroit, and 30 miles north of Automation Alley in Oakland County. The City is enhanced by exemplary educational opportunities for kindergarten through 12th grade via both public and private schools and a premier library system. Quality health care is provided by the recently relocated Genesys Hospital, located just outside the city limits.

The City operates under the council/manager form of government with seven elected officials, a mayor and six City Council members representing the residents of the City of Grand Blanc. Policy making and legislative authority are vested with the mayor and council members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, and appointing committees. The City Manager is responsible for carrying out the policies of the governing council, and for overseeing the day to day operation of the city. The Mayor and the City Council members are elected on a non-partisan basis. The Mayor is directly elected by the electorate for a two year term. The City Council members are elected on a staggered four (4) year term on an at large basis, with three (3) members being elected every two years. The City Manager is appointed by, and serves at, the pleasure of the City Council.

The City of Grand Blanc provides various municipal services to its citizens. Among these are police protection, garbage collection, water and sewer operations, street construction, maintenance and snow removal, planning and zoning and general administrative services. The City also participates in joint ventures such as: Grand Blanc Fire Commission, Grand Blanc Parks & Recreation Commission/ Senior Citizen Activity Center and the Grand Blanc District Library, with the Charter Township of Grand Blanc.

The City's annual budget provides the foundation for the financial planning and control. All departments and commissions funded by the City of Grand Blanc are required to submit requests for appropriations to the City Manager. The City Manager utilizes these requests as the basis for developing the proposed budget submitted to the City's Finance Committee. The Finance Committee is comprised of the Mayor and three City Council Members, which meet on a monthly basis to review the budget to actual numbers, prepare the budget, review accounts payable and to address all financial requests/concerns of the City of Grand Blanc. The Finance Committee presents the proposed budget to the full City Council by May 1st of each year. The City Council actually adopts a two year budget, and the immediate next fiscal year budget is amended based on revised, more current information. The second year budget is the starting point for the budget process that begins in January. The adoption of the two year budget has greatly reduced the budget preparation time, allows the City to be more proactive and react faster to poor economic factors.

This Comprehensive Annual Financial Report is presented in three sections:

Introductory Section - The introductory section of the CAFR includes this transmittal letter, an organizational chart, a list of the City's administration, and the City's Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended May 31, 2005 from the Government Finance Officers Association of the United States and Canada.

Financial Section - The financial section includes the independent auditor's report, management's discussion and analysis report, government wide financial statements, fund

financial statements, notes to the financial statements, required supplemental information, and other supplemental information. Management's discussion and analysis provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Statistical Section – The statistical section includes selected financial, tax and demographic information that covers a period of 10 years.

Major Initiatives

The City of Grand Blanc has continued the aggressive street resurfacing and/or reconstruction program that was begun many years ago. The most recently completed projects include the relocation of Holly Road (a major artery leading to and from I-75), resurfacing many streets in some of our residential areas, and the installation of additional traffic signals. All of these projects have increased the safety for our residents. Many of the street projects are made possible by Transportation Grants.

The City has completed the construction of two (2) water softening plants to serve our residents with soft water. The water is as soft as rain water. There have been two (2) additional health benefits derived from the water softening project: arsenic has been removed from the drinking water, surpassing the federal standards and secondly, the softening process does not use any salt. The system is a "nano-filtration" system, where the water is forced through a membrane with very small holes. This membrane allows the water to pass through while collecting the contaminants and suspended materials.

The City of Grand Blanc has worked closely with the Federal Emergency Management Agency (FEMA) to alleviate flooding in several areas of the City. The City received four (4) matching grants totaling several million dollars to correct flooding conditions. Two (2) of the four (4) projects have been completed, the storm sewer on Via Catherina; and the purchase and demolition of five (5) homes within the flood plain. These homes had experienced flooding for many, many years. There was an added benefit of purchasing the homes: the City was able to enlarge an existing city owned park. Both of the other projects are currently under construction, a storm sewer in Indian Hill subdivision and a storm sewer in the LaFave Gardens subdivision. These projects are designed to help alleviate flooding and move water away from the homes quickly. Both these projects should be completed by late summer or early fall.

Long Term Financial Planning

The City Council and Department Heads convene annually to develop and update the City's strategic plan for improvements to the infrastructure. Highlights of the current program include:

- ❖ The continuing upgrade of computer technology throughout the City departments, including a review of the existing financial system.
- ❖ The removal of diseased Ash trees prior to the tree dying and possibly falling down and damaging homes, streets, sidewalks, pulling down of power lines or causing personal injury.
- ❖ Police and Fire Departments have upgraded and expanded its equipment to better serve homeland security requirements.

- ❖ Installation of "Intelligent Traffic Signals" on S. Saginaw Street, the main route through the downtown area.
- ❖ Improvements to storm water management system
- ❖ Continuing to make improvements to our water supply system and the quality of the water.
- ❖ Contracting with financial experts to assist the City with its post employment benefits.

Since the City of Grand Blanc is at a mature stage in its life cycle the City Council is moving forward with the development of two (2) additional "improvements" which may have the greatest impact on the City. The City Council is establishing a Downtown Development Authority (DDA) and a Brownfield Redevelopment Authority (BRA).

The DDA will focus on redeveloping the downtown area. The City had already developed the comprehensive Downtown Design guideline. These guidelines have already aided in the redevelopment of the downtown area. There have been improvements made to existing businesses and several new businesses developed in the downtown area. Many of these improvements and new businesses were completed before the establishing the DDA. The DDA will be used as another tool to create a unique downtown that will offer our residents and visitors options for entertainment, shopping, and services, all in one package.

Michigan's Brownfield law is designed to encourage and assist developers who want to return property to productive use more quickly and at a lower cost than before, while still protecting human health and natural resources. The City of Grand Blanc has several properties that qualify under the Brownfield Act. The City's goal is to remediate property and to develop the property considered a Brownfield site.

Long range financial planning, of course, is affected by the City's revenue stream. The negative effects of Proposal A of 1994 are finally coming apparent, particularly for older, low-growth rate communities like Grand Blanc. The full impact of this proposal on local government service levels were delayed by the unusually long robust economy experienced through the mid- and late 1990s. Because of the State's greater reliance on the sales tax as a revenue producer, the slowing economy had a greater relative effect on State Shared Revenue payments, on which about ¼ the City's General Fund revenues are dependent.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the unique environment within which the City of Grand Blanc operates.

Local economy

The City of Grand Blanc is a desirable community and continues to attract new residents and businesses. The economic condition of the City is fiscally sound and stable. The future, however, is filled with economic uncertainty, challenges, and new opportunities.

Revenue projections continue to be challenging due to the reduction in the State of Michigan's state shared revenue program. Due to the decrease in state shared revenues, the City's second largest revenue source, the City continues to be challenged in maintaining current levels of

operating expenses. The City maintains an adequate fund balance that offers a defense against a sluggish economy.

Many of Grand Blanc's residents work in either the Flint metropolitan area or in Automation Alley, a cluster of technology-driven companies in Oakland County. Genesee County's unemployment rate has increased for the past couple of years. Unemployment rates increased in durable manufacturing and in the wholesale sectors of the economy, while employment rates increased slightly in business and health, construction, government, and non-durable manufacturing. Automotive and truck related production makes up the largest share of manufacturing employment in Genesee County. Employment at General Motors, SPE and Delphi facilities decreased significantly in recent years.

Cash Management

The City complies with Public Act 20 of 1943 (as amended) of the State of Michigan in its cash management activities. Cash temporarily idle during the year was invested in demand deposits and in time deposits ranging from seven (7) to ninety-three (93) days. At the present time, the Council's investment policy is to invest in only local institutions. The Council is aware that a substantial amount of funds are at risk, but prefers to keep the funds in the local community. The City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Risk Management

The City of Grand Blanc is insured by the Michigan Municipal League's Michigan Liability and Property Pool for comprehensive general liability, motor vehicle damage, comprehensive property damage and public official liability. The City participates in the Michigan Municipal League Worker's Compensation Fund for worker's compensation claims.

Pension and Other Post-employment Benefits

The City of Grand Blanc contributes to either a defined contribution plan administered by International City Management Association Retirement Corporation (ICMA-RC) or a defined benefit plan administered by Municipal Employees Retirement System (MERS) for each full time employee. The Police Patrol Unit union members are members of the MERS system. The City of Grand Blanc offered the non-union employees the choice to remain members of the ICMA system or transfer to the MERS plan. The majority of the employees elected to join the MERS retirement plan. As a matter of policy, the City fully funds each year's annual required contribution to each of the pension plans. The City also provides post-retirement health, dental and life insurance for certain retirees and their dependents. As of the end of the current fiscal year, there were 9 retired employees/dependents receiving these benefits, which are financed on a pay-as-you-go basis.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Grand Blanc for its CAFR for the fiscal year ended May 31, 2005. This was the fifteenth consecutive year that the City has received this

prestigious award. In order to be awarded the Certificate of Achievement, the City must publish an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for only one year. I believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and I will submit it to the GFOA to determine its eligibility for another certificate.

I wish to acknowledge the efforts of the department heads and the office staff that make it possible to prepare this CAFR. The commitment of the City Council to fiscal integrity and to financial leadership is also greatly appreciated. The accounting firm of Rehmann Robson also made substantial contributions in the preparation of this document.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Richard Saathoff", with a stylized flourish at the end.

Richard Saathoff, MMC
City Clerk/Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Grand Blanc,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
May 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

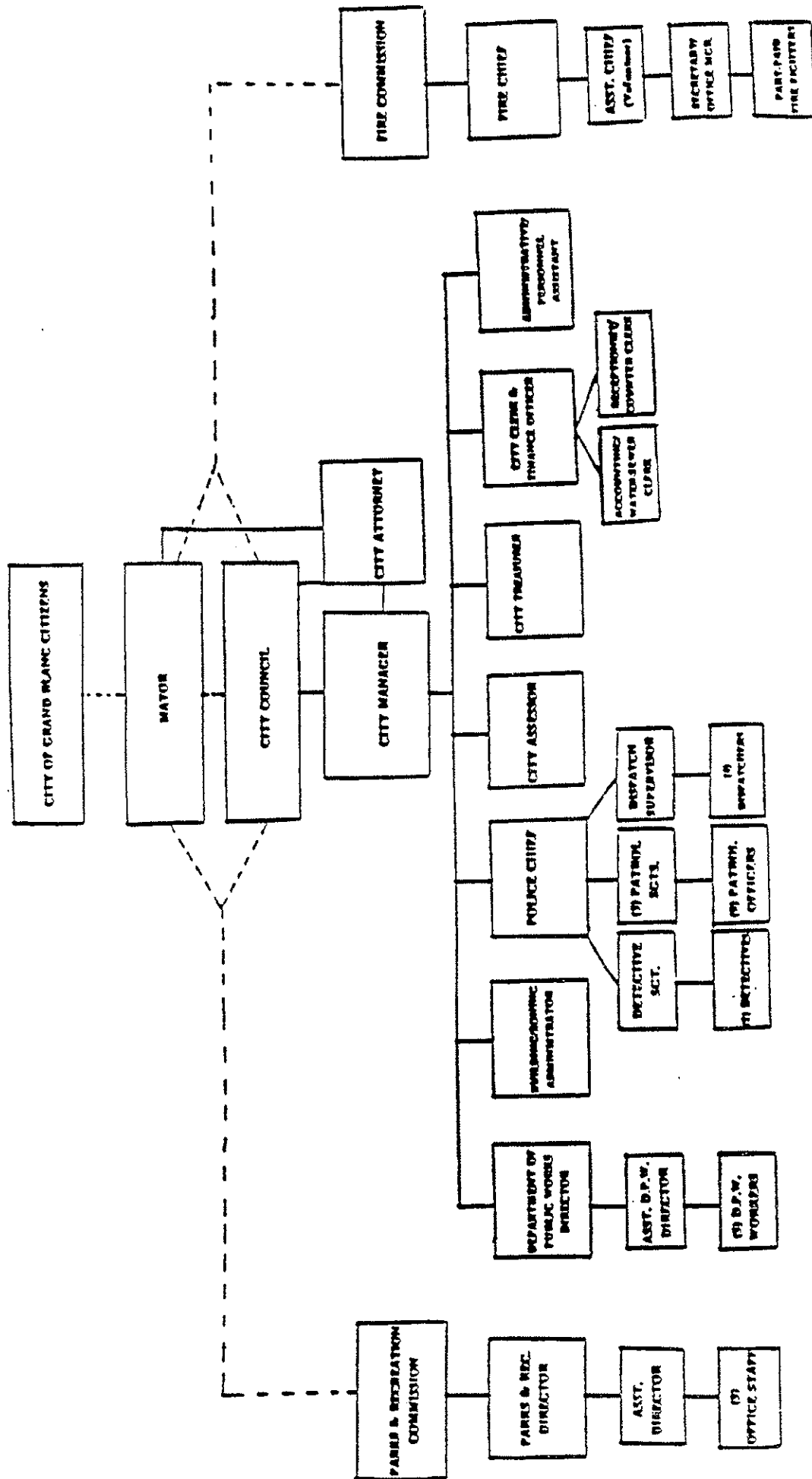


Carla E. Perry

President

Jeffrey R. Enen

Executive Director



CITY OF GRAND BLANC GOVERNMENT STRUCTURE

Financial Section



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

July 27, 2006

Honorable Mayor and
Members of City Council
City of Grand Blanc
Grand Blanc, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Grand Blanc, Michigan***, as of and for the year ended May 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of Grand Blanc, Michigan's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Grand Blanc, Michigan***, as of May 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons of the General and Local Street governmental funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also separately issued our report dated July 27, 2006 on our consideration of the ***City of Grand Blanc, Michigan***'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3.1-3.6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of Grand Blanc, Michigan***'s basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

Management's Discussion and Analysis

The City of Grand Blanc's annual report has been prepared in compliance with Governmental Accounting Standard Board's (GASB) Statement No. 34 and consists of management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements and required supplemental information, and other supplemental information. The information presented here should be read in conjunction with the financial statements and the notes to the financial statements that follow.

The government-wide financial statements are designed to provide a broad overview of the City's finances and are presented on a full accrual basis of accounting, with an emphasis on measuring all economic resources and not just on current financial resources measured on the individual fund statements. These statements make a distinction between governmental activities such as public safety and public works and business-type activities such as the provision of water and sewer services. Two government-wide statements are provided.

One government-wide statement, the statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increase or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The other government-wide statement, the statement of activities, provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increase or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major and combined financial information is provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works, proprietary funds, which account for business-type activities such as providing water and sewer services, and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities, such as bonds, accrued interest, and accrued employee leave time, in the government-wide statement of net assets, which are not included in the fund balance sheets; and the recognition of certain revenues and expenditures such as bond proceeds, capital outlays, and debt principal repayment in the individual fund statements, which are not recorded in the government-wide statements.

Financial Highlights

- ❖ The total net assets for the City of Grand Blanc are \$19,535,429. Of this amount, \$4,174,579 is unrestricted and available for any City activity. The net assets increased \$1,708,038 from the prior year.
- ❖ Combined Program and General Revenue for the Primary Government funds amounted to \$8,609,634. This exceeded expenses of \$6,902,596 by \$1,708,038.
- ❖ The combined fund balance at May 31, 2005 for the City's governmental funds was \$2,877,061. This was a decrease of \$566,148 from the prior year.

- ❖ General Fund expenditures exceeded revenues by \$300,730, causing the General Fund's fund balance to decrease accordingly.

Overview of the Financial Statements

This discussion constitutes the first section or introduction to the financial statements, which includes three parts. They are government-wide financial statements, the fund financial statements, and the notes to the financial statements. In addition to the financial statements, other supplementary information is also provided.

- ❖ The government-wide financial statements provide a broad overview of the City of Grand Blanc financial status for both the long-term and short-term.
 - The statement of net assets and statement of activities focus on the overall financial health indicators of the City. Those indicators are further categorized as either governmental activities that are primarily supported by taxes and intergovernmental revenues or business type activities which are supported by user fees and charges.
 - Grand Blanc's governmental activities include such areas as general government, public safety, highways, and streets. The business-type activities include water and sewer.
- ❖ The remaining statements are fund financial statements that focus on individual segments of the City. They are narrower in scope and provide more detail than the government-wide statements.
 - Governmental funds such as the general fund and the police fund focus on the financing of these areas in the short term and what remains for future spending.
 - Water and sewer funds represent some of the proprietary fund statements and show how these activities operate like businesses.
 - Fiduciary fund statements provide information about financial relationships, such as the retirement plan for City employees, where the City administers the fund for the benefit of others who have ownership to the assets.

Notes to the financial statements are also included to further explain some of the financial statements and provide more detailed data.

The final sections include other information. The required supplemental information would include such items as the City of Grand Blanc's progress in funding its pension obligations. In addition, the City has also provided discretionary information about the City that should further enhance the understanding of its operations.

Government-wide Financial Analysis

As mentioned earlier, net assets provide useful benchmarks in determining overall financial position. The City of Grand Blanc's combined net assets are \$19,535,429. This compares to last year's total of \$17,135,903 which was an increase of \$2,381,526.

City of Grand Blanc's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 3,961,476	\$ 3,754,312	\$ 1,249,419	\$ 1,493,773	\$ 5,210,895	\$ 5,248,085
Capital assets	<u>9,385,997</u>	<u>7,323,609</u>	<u>11,312,938</u>	<u>11,469,472</u>	<u>20,698,935</u>	<u>18,793,081</u>
Total assets	13,347,473	11,077,921	12,562,357	12,963,245	25,909,830	24,041,166
Current and other liabilities	139,493	126,862	217,066	324,831	356,559	451,693
Long-term liabilities	<u>1,991,990</u>	<u>2,337,639</u>	<u>4,025,852</u>	<u>4,097,937</u>	<u>6,017,842</u>	<u>6,435,570</u>
Total liabilities	2,131,483	2,464,501	4,242,918	4,422,762	6,374,401	6,887,263
Net assets						
Invested in capital assets, net of related debt	7,526,757	1,229,602	7,319,602	7,371,541	14,846,359	8,601,143
Restricted						
Highways and streets	514,491	785,190	-	-	514,491	785,190
Debt service	-	63,836	-	-	-	63,836
Unrestricted	<u>3,174,742</u>	<u>6,534,792</u>	<u>999,837</u>	<u>1,168,942</u>	<u>4,174,579</u>	<u>7,703,734</u>
Total net assets	11,215,990	8,613,420	8,319,439	8,540,483	19,535,429	17,153,903
Total liabilities and net assets	\$13,347,473	\$11,077,921	\$12,562,357	\$12,963,245	\$25,909,830	\$24,041,166

Further review of the assets indicates that they are divided into three parts. The largest part (76%) is the investment in capital assets (land, buildings, machinery and equipment) which cannot be readily liquidated or available for future spending. The second part is restricted assets, which can be used strictly for certain purposes. Finally the last part is unrestricted assets which can be used for ongoing obligations or new activities

Governmental Activities

Governmental activities are described in detail below. The City of Grand Blanc's increase in net assets of \$1,708,038 accounted for a 13.8% increase in the total growth of net assets.

The increase in net assets was caused by several items in both the revenue and expense activities.

There were several changes in the revenue activities that affected the net assets.

The City of Grand Blanc applied for and was awarded four (4) Federal Emergency Management Agency grants to alleviate flooding problems in three (3) areas of the City. These grants were used to purchase and demolish five (5) residences; and to construct improved storm water sewer systems. This accounts for the greater majority of the increase in "capital grants and contributions".

A portion of the decrease in "operating grants and contributions" is attributed to the City no longer supplying a Police Officer to the Flint Area Narcotics Group and receiving reimbursement for the Officer's wages and fringe benefits. The COPS grant had also expired. The streets funds, both, Major Streets and Local Streets, received less gas and weight tax revenue. This was mostly likely due to the high price of gasoline and conservation efforts of the residents of the State as a whole, and lower number tourists visiting our State.

The City of Grand Blanc was able to invest some of the excess funds for longer periods of time and thus obtaining high interest rate yield.

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues						
Charges for services	\$ 742,619	\$ 795,755	\$ 1,796,701	\$ 1,607,824	\$ 2,539,320	\$ 2,403,579
Operating grants and contributions	521,417	928,877	-	-	521,417	928,877
Capital grants and contributions	1,026,099	694,042	71,221	23,500	1,097,320	717,542
General Revenues:						
Property taxes	3,263,590	3,121,778	322,167	310,275	3,585,757	3,432,053
State Shared Revenues	706,382	709,581	-	-	706,382	709,581
Other	126,249	55,029	33,189	19,641	159,438	74,670
Total Revenues	6,386,356	6,305,062	2,223,278	1,961,240	8,609,634	8,266,302
Expenses:						
General government	1,241,738	764,846	-	-	1,241,738	764,846
Public service	532,730	975,498	-	-	532,730	975,498
Public safety	2,090,488	1,927,040	-	-	2,090,488	1,927,040
Public works	343,667	470,877	-	-	343,667	470,877
Highway and Streets	208,530	293,444	-	-	208,530	293,444
Interest on long term debt	85,137	85,507	-	-	85,137	85,507
Water	-	-	1,363,648	1,272,831	1,363,648	1,272,831
Sewer	-	-	1,035,658	1,000,240	1,035,658	1,000,240
Total Expenses	4,502,290	4,517,212	2,399,306	2,273,071	6,901,596	6,790,283
Increase (decrease) net assets	1,884,066	1,787,850	(176,028)	(311,831)	1,708,038	1,476,019
Net assets – beginning of year*	9,331,924	7,265,095	8,495,467	8,852,341	17,827,391	16,117,409
Net assets – end of year	11,215,990	9,052,945	8,319,439	8,540,483	19,535,429	17,593,428

*restated for 2006

Items on the expense side that also affected the City's net assets:

The City purchased several pieces of real property in the downtown area. These purchases were financed, in part, on a land contract with a local bank. These monies had been received in the prior year but due to timing difficulties with the closings, did not actually close until this fiscal year.

The roof on City Hall was completely replaced. While the roof was being replaced, there were significant rainstorms for many days. There was significant damage to both the building and equipment within the building. While the majority of the storm damage was covered by insurance and the roofing contractor, there were items that needed to be replaced that were either not covered or were discovered well after the damage claim had been settled.

The City of Grand Blanc also had increased cost associated with its legal and professional fees. These increases were due to contract negotiations with two (2) bargaining units and planning consultants for the downtown area.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,877,061, a decrease of \$566,148 in comparison with the prior year. Approximately 97% or \$2,804,829 of the total fund balance, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance, a total of \$72,232, is reserved to indicate that it is not available for new spending because it has already been committed for other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the designated fund balance of the general fund was \$810,388, while total fund balance was \$2,278,020. As a measure of the general fund's liquidity, it may be useful to compare undesignated fund balance to total fund expenditures. Undesignated fund balance represents approximately 31% of total general fund expenditures.

The General Fund fund balance decreased by \$300,730. General Fund monies were used to purchase a piece of real property in the downtown area.

The major street fund has a total fund balance of \$447,497, a decrease of \$38,202 during the year.

The local street fund had a decrease in fund balance for the current year of \$232,497 for an ending total of \$66,994. Substantially all of the decrease fund balance was planned and used for improvement many local streets.

The nonmajor funds have a total fund balance of \$521,140, of which \$459,815 is unreserved.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

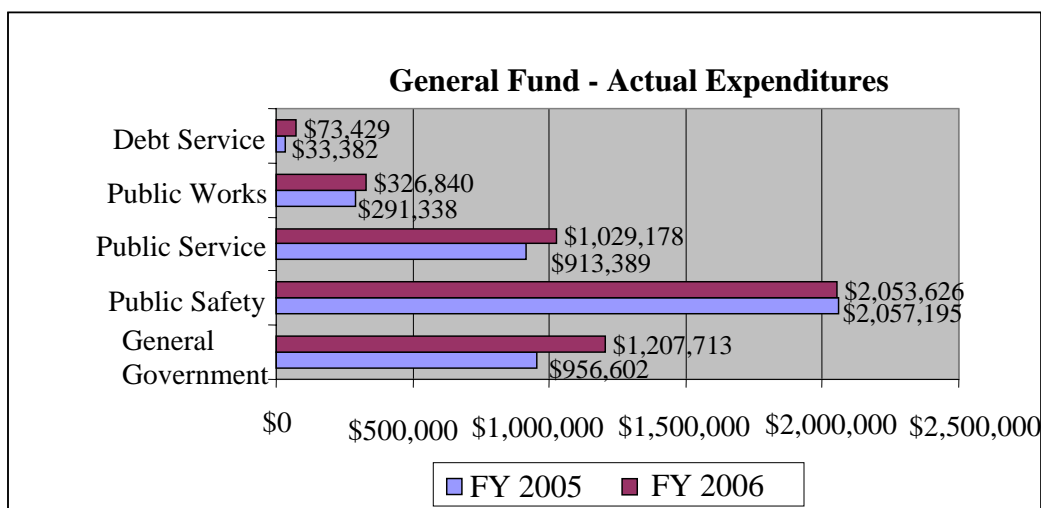
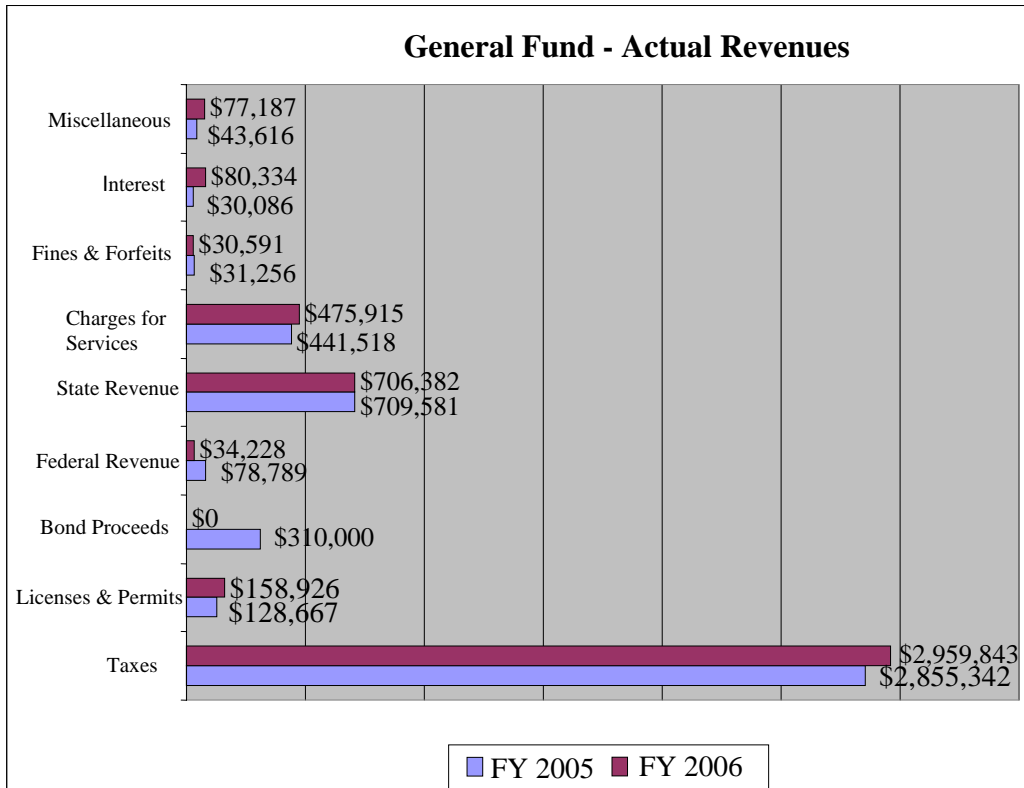
The proprietary funds of the City of Grand Blanc are comprised of the water and sewer funds. Similar types of information are found here as compared to the government-wide statements but with more detail. The Water Fund's net assets were increased by \$70,194, to \$5,571,588. This increase is due to funds being set aside to replace the membranes used in the water soften process. The Sewer Fund's net assets were decreased by \$219,488, to \$2,764,908. This decrease in the sewer fund is due to depreciation expense.

General Fund Budgetary Highlights

The General Fund accounts for all police, public works, planning and zoning, and administrative functions of the City government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely, and during the annual budget process, the City completes an extensive review of the current year budget, culminating a budget amendment to appropriate revised revenue and expenditure estimates. As a result of carefully monitoring

throughout the year, a practice and a history of conservative budgeting, and cost containment measures taken by all Department Heads, usually results in the differences between the original and final amended budgets for revenues and expenditures as a relatively minor amount.

The primary reason for an increase in the budgeted expenditures for the year ended May 31, 2006 for the General Fund is mainly due to the purchase of real property in the downtown area.



Capital Asset and Debt Administration

At May 31, 2006, the City of Grand Blanc's investment in capital assets for the governmental and business-type activities amounted to \$20,698,935 (net of depreciation). The investment in capital assets covers a broad variety of land, buildings, machinery, equipment, roads, highways, and bridges. The investment in capital assets increased \$1,905,854.

There were purchases of the real property for the proposed downtown improvements.

Additional information regarding the City's capital assets can be found in note IV c. on pages 30 - 32 of this report.

Long-Term Debt

At May 31, 2006, the City had \$1,991,990 in bonds outstanding and compensated absences for governmental activities and \$4,025,852 in bonds outstanding and compensated absences for business-type activities.

Additional information regarding the City's long-term debt can be found on pages 35-37 of this report.

Economic Factors and Next Year's Budgets and Rates

The economic condition of the State of Michigan is an ongoing concern. After withstanding a cut in state shared revenues of approximately \$120,000 in the past year fiscal years; the upcoming fiscal year 2006-07 may be faced with further cuts.

In addition, as provided in the State of Michigan Truth in Taxation Act, the City's state equalized value can not increase due to inflation more than the cost of living index.

Information Requests

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors a general overview of the City's finances and provide further accountability of the financial transactions that take place. If you have questions about this report or need additional financial information, please contact the City of Grand Blanc City Clerk's Office, 203 E. Grand Blanc Road, Grand Blanc, Michigan, 48439.

Basic Financial Statements

Government-Wide Financial Statements

CITY OF GRAND BLANC
STATEMENT OF NET ASSETS
MAY 31, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,746,119	\$ 935,391	\$ 3,681,510
Receivables	467,002	382,394	849,396
Internal balances	68,366	(68,366)	-
Investments in joint ventures:			
Fire commission	404,090	-	404,090
Parks and recreation	275,899	-	275,899
Capital assets, net:			
Assets not being depreciated	4,132,151	240,220	4,372,371
Assets being depreciated	5,253,846	11,072,718	16,326,564
Total assets	<u>13,347,473</u>	<u>12,562,357</u>	<u>25,909,830</u>
Liabilities			
Accounts payable and accrued expenses	139,493	217,066	356,559
Noncurrent liabilities:			
Due within one year	225,454	205,088	430,542
Due in more than one year	1,766,536	3,820,764	5,587,300
Total liabilities	<u>2,131,483</u>	<u>4,242,918</u>	<u>6,374,401</u>
Net Assets			
Invested in capital assets, net of related debt	7,526,757	7,319,602	14,846,359
Restricted for:			
Highways and streets	514,491	-	514,491
Unrestricted	3,174,742	999,837	4,174,579
Total net assets	<u>\$ 11,215,990</u>	<u>\$ 8,319,439</u>	<u>\$ 19,535,429</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GRAND BLANC

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2006**

Functions / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 1,241,738	\$ 236,479	\$ -	\$ -
Public service	532,730	278,889	-	299,848
Public safety	2,090,488	227,251	34,228	-
Public works	343,667	-	-	-
Highways and streets	208,530	-	487,189	726,251
Interest on long-term debt	85,137	-	-	-
Total governmental activities	4,502,290	742,619	521,417	1,026,099
Business-type activities:				
Water	1,363,648	1,038,263	-	33,721
Sewer	1,035,658	758,438	-	37,500
Total business-type activities	2,399,306	1,796,701	-	71,221
Total primary government	\$ 6,901,596	\$ 2,539,320	\$ 521,417	\$ 1,097,320

General revenues:

Property taxes

Grants and contributions not
restricted to specific programs

Unrestricted investment earnings

Gain on disposal of capital assets

Total general revenues

Change in net assets

Net assets, beginning of year, as restated

Net assets, end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,005,259)	\$ -	\$ (1,005,259)
46,007	-	46,007
(1,829,009)	-	(1,829,009)
(343,667)	-	(343,667)
1,004,910	-	1,004,910
(85,137)	-	(85,137)
(2,212,155)	-	(2,212,155)
-	(291,664)	(291,664)
-	(239,720)	(239,720)
-	(531,384)	(531,384)
(2,212,155)	(531,384)	(2,743,539)
3,263,590	322,167	3,585,757
706,382	-	706,382
122,373	33,189	155,562
3,876	-	3,876
4,096,221	355,356	4,451,577
1,884,066	(176,028)	1,708,038
9,331,924	8,495,467	17,827,391
\$ 11,215,990	\$ 8,319,439	\$ 19,535,429

Fund Financial Statements

**CITY OF GRAND BLANC
BALANCE SHEET
GOVERNMENTAL FUNDS
MAY 31, 2006**

ASSETS	General	Local Street	Building Authority	Other Governmental Funds	Total
Cash and cash equivalents	\$ 2,018,977	\$ 212,199	\$ 250,642	\$ 264,301	\$ 2,746,119
Receivables:					
Accounts	10,224	-	-	-	10,224
Taxes	151,407	12,487	-	-	163,894
Due from other funds	341,365	-	65,544	300,633	707,542
Due from other governmental units	97,040	21,964	-	36,065	155,069
TOTAL ASSETS	\$ 2,619,013	\$ 246,650	\$ 316,186	\$ 600,999	\$ 3,782,848
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 14,186	\$ -	\$ -	\$ -	\$ 14,186
Accrued liabilities	85,080	-	-	-	85,080
Due to other funds	226,856	179,656	305,279	79,859	791,650
Due to other governmental units	14,871	-	-	-	14,871
TOTAL LIABILITIES	340,993	179,656	305,279	79,859	905,787
FUND BALANCES					
Reserved for:					
Debt service	-	-	10,907	58,210	69,117
Capital projects	-	-	-	3,115	3,115
Unreserved:					
Designated for working capital	690,388	-	-	-	690,388
Designated for city employee retirement benefit costs	120,000	-	-	-	120,000
Undesignated:					
General Fund	1,467,632	-	-	-	1,467,632
Special Revenue Funds	-	66,994	-	459,815	526,809
TOTAL FUND BALANCES	2,278,020	66,994	10,907	521,140	2,877,061
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,619,013	\$ 246,650	\$ 316,186	\$ 600,999	\$ 3,782,848

The accompanying notes are an integral part of these financial statements.

CITY OF GRAND BLANC
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
MAY 31, 2006

Fund balances - total governmental funds	\$ 2,877,061
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	10,852,667
Deduct - accumulated depreciation	(1,935,571)

Other long-term assets are not available to pay for current period expenditures and therefore, either deferred or otherwise not recorded in the funds

Add - investment in joint ventures	679,989
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Charges deferred to future periods in the governmental activities are not reported in the funds

Add - delinquent property taxes receivable	137,815
--	---------

An internal service fund is used by management to charge the costs of the vehicle/equipment pool to individual funds. A portion of the assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service fund	599,848
--	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - long-term debt	(1,840,000)
Deduct - accrued interest on long-term debt	(23,069)
Deduct - compensated absences	(132,750)

Net assets of governmental activities:	\$ 11,215,990
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The accompanying notes are an integral part of these financial statements.

**CITY OF GRAND BLANC
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MAY 31, 2006**

	General	Local Street	Building Authority	Other Governmental Funds	Total
REVENUES					
Taxes	\$ 2,959,843	\$ 268,425	\$ -	\$ -	\$ 3,228,268
Licenses and permits	158,926	-	-	-	158,926
Intergovernmental revenue	740,610	864,087	-	649,201	2,253,898
Charges for services	475,915	-	-	-	475,915
Fines and forfeitures	30,591	-	-	-	30,591
Interest	80,334	14,760	-	27,279	122,373
Other revenue	77,187	-	-	-	77,187
TOTAL REVENUES	4,523,406	1,147,272	-	676,480	6,347,158
EXPENDITURES					
Current:					
General government	1,207,713	-	-	-	1,207,713
Public safety	2,053,626	-	-	-	2,053,626
Public service	1,029,178	-	-	299,848	1,329,026
Public works	326,840	-	-	-	326,840
Highways and streets	-	1,402,800	-	243,072	1,645,872
Debt service					
Principal retirement	55,000	-	130,000	80,000	265,000
Interest and fiscal charges	18,429	-	3,350	63,450	85,229
TOTAL EXPENDITURES	4,690,786	1,402,800	133,350	686,370	6,913,306
REVENUES OVER (UNDER) EXPENDITURES	(167,380)	(255,528)	(133,350)	(9,890)	(566,148)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	50,000	133,350	143,450	326,800
Transfers (out)	(133,350)	(26,969)	-	(166,481)	(326,800)
TOTAL OTHER FINANCING SOURCES (USES)	(133,350)	23,031	133,350	(23,031)	-
NET CHANGE IN FUND BALANCES	(300,730)	(232,497)	-	(32,921)	(566,148)
FUND BALANCES, BEGINNING OF YEAR	2,578,750	299,491	10,907	554,061	3,443,209
FUND BALANCES, END OF YEAR	\$ 2,278,020	\$ 66,994	\$ 10,907	\$ 521,140	\$ 2,877,061

The accompanying notes are an integral part of these financial statements.

CITY OF GRAND BLANC
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2006

Net change in fund balances - total governmental fund	\$ (566,148)
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Amounts reported for *governmental activities* in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense

Add - capital outlay	2,312,306
Deduct - depreciation expense	(248,224)

Certain revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenue in the funds, rather they are deferred to the following fiscal year

Add - increase in investment in joint venture	106,620
Add - increase in delinquent property taxes receivable	35,322

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

Add - principal payments on long-term liabilities	273,094
---	---------

An internal service fund is used by management to charge the costs of the vehicle equipment pool to individual funds. The net revenue (expense) of the fund is reported with governmental activities

Deduct - net operating loss from governmental activities in the internal service fund	(25,857)
Add - gain on disposal of capital assets	3,876
Deduct - interest expense recorded in the internal service fund	(2,609)

Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the fund

Add - decrease in accrued interest payable on bond	2,700
Deduct - increase in compensated absence	(7,014)

Change in net assets of governmental activities	\$ 1,884,066
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The accompanying notes are an integral part of these financial statements

**CITY OF GRAND BLANC
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED MAY 31, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,686,115	\$ 2,686,115	\$ 2,959,843	\$ 273,728
Licenses and permits	136,630	158,030	158,926	896
Intergovernmental revenue:				
Federal	45,000	45,000	34,228	(10,772)
State	613,400	707,100	706,382	(718)
Charges for services	427,600	470,950	475,915	4,965
Fines and forfeitures	35,600	35,000	30,591	(4,409)
Interest and rentals	42,000	78,000	80,334	2,334
Other revenue	24,000	77,300	77,187	(113)
TOTAL REVENUES	4,010,345	4,257,495	4,523,406	265,911
EXPENDITURES				
Current:				
General government:				
Administration	233,950	280,550	272,477	8,073
City manager	127,205	135,540	131,458	4,082
Elections	5,000	7,200	7,763	(563)
Assessor	55,845	28,005	26,759	1,246
City clerk	107,980	112,770	110,972	1,798
City treasurer	29,525	29,525	29,409	116
City hall	147,500	164,600	158,811	5,789
City property	97,900	412,300	410,426	1,874
Personnel	3,750	2,600	2,077	523
Retirement benefits	82,380	56,325	57,561	(1,236)
Total general government	891,035	1,229,415	1,207,713	21,702
Public safety:				
Police department	1,957,450	1,986,300	1,953,840	32,460
Building inspection	122,575	104,175	99,786	4,389
Total public safety	2,080,025	2,090,475	2,053,626	36,849
Public service	763,375	783,145	1,029,178	(246,033)

**CITY OF GRAND BLANC
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED MAY 31, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES (continued)				
Current (continued):				
Public works	244,410	346,960	326,840	20,120
Debt service:				
Principal retirement	55,000	55,000	55,000	-
Interest and fiscal charges	20,500	18,500	18,429	71
Total debt service	75,500	73,500	73,429	71
TOTAL EXPENDITURES	4,054,345	4,523,495	4,690,786	(167,291)
REVENUES OVER (UNDER) EXPENDITURES	(44,000)	(266,000)	(167,380)	98,620
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(133,350)	(133,350)	(133,350)	-
NET CHANGE IN FUND BALANCES	(177,350)	(399,350)	(300,730)	98,620
FUND BALANCES, BEGINNING OF YEAR	2,578,750	2,578,750	2,578,750	-
FUND BALANCES, END OF YEAR	<u>\$ 2,401,400</u>	<u>\$ 2,179,400</u>	<u>\$ 2,278,020</u>	<u>\$ 98,620</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GRAND BLANC
LOCAL STREET SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED MAY 31, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 267,850	\$ 267,850	\$ 268,425	\$ 575
Intergovernmental:				
Federal	-	726,525	726,251	(274)
State	-	135,000	137,836	2,836
Interest	2,500	2,500	14,760	12,260
TOTAL REVENUES	270,350	1,131,875	1,147,272	15,397
EXPENDITURES				
Current:				
Highways and streets	752,580	1,479,105	1,402,800	76,305
REVENUES OVER (UNDER) EXPENDITURES	(482,230)	(347,230)	(255,528)	91,702
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	50,000	-
Transfers (out)	(27,770)	(27,770)	(26,969)	801
TOTAL OTHER FINANCING SOURCES (USES)	22,230	22,230	23,031	801
NET CHANGE IN FUND BALANCE	(460,000)	(325,000)	(232,497)	92,503
FUND BALANCE, BEGINNING OF YEAR	299,491	299,491	299,491	-
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (160,509)</u>	<u>\$ (25,509)</u>	<u>\$ 66,994</u>	<u>\$ 92,503</u>

**CITY OF GRAND BLANC
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
MAY 31, 2006**

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 676,848	\$ 258,543	\$ 935,391	\$ -
Receivables:				
Customers	216,342	121,413	337,755	-
Taxes	14,983	-	14,983	-
Due from other funds	4,074	62,988	67,062	135,581
Due from other governments	29,656	-	29,656	-
TOTAL CURRENT ASSETS	941,903	442,944	1,384,847	135,581
NONCURRENT ASSETS				
Capital assets (net of accumulated depreciation)	8,877,972	2,434,966	11,312,938	468,901
TOTAL ASSETS	9,819,875	2,877,910	12,697,785	604,482
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	82,326	94,466	176,792	2,287
Accrued liabilities	14,844	8,915	23,759	-
Accrued interest payable	16,515	-	16,515	-
Due to other funds	118,371	-	118,371	164
Compensated absences, current portion	10,607	4,481	15,088	-
Notes payable, current portion	-	-	-	9,339
Bonds payable, current portion	190,000	-	190,000	-
TOTAL CURRENT LIABILITIES	432,663	107,862	540,525	11,790
LONG-TERM LIABILITIES				
Compensated absences, net of current portion	12,288	5,140	17,428	-
Notes payable, net of current portion	-	-	-	9,901
Bonds payable, net of current portion	3,803,336	-	3,803,336	-
TOTAL LONG-TERM LIABILITIES	3,815,624	5,140	3,820,764	9,901
TOTAL LIABILITIES	4,248,287	113,002	4,361,289	21,691
NET ASSETS				
Investment in capital assets, net of related debt	4,884,636	2,434,966	7,319,602	449,661
Unrestricted	686,952	329,942	1,016,894	133,130
TOTAL NET ASSETS	\$ 5,571,588	\$ 2,764,908	8,336,496	\$ 582,791
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			(17,057)	
NET ASSETS OF BUSINESS-TYPE ACTIVITIES			\$ 8,319,439	

The accompanying notes are an integral part of these financial statements.

**CITY OF GRAND BLANC
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED MAY 31, 2006**

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service
OPERATING REVENUES				
Charges for services	\$ 894,416	\$ 758,438	\$ 1,652,854	\$ 242,979
Rentals	87,848	-	87,848	-
Parts and service	21,529	-	21,529	-
Penalties	32,482	-	32,482	-
TOTAL OPERATING REVENUES	1,036,275	758,438	1,794,713	242,979
OPERATING EXPENSES				
Salaries and fringe benefits	399,985	270,005	669,990	-
Operating supplies	227,259	15,857	243,116	-
Maintenance and repairs	56,736	5,968	62,704	127,672
Utilities	170,663	1,834	172,497	-
Sewage disposal service	-	512,101	512,101	-
Depreciation	274,193	120,849	395,042	103,251
Insurance	38,000	28,000	66,000	55,000
Miscellaneous	14,495	10,173	24,668	9,647
Equipment rental	69,000	57,500	126,500	-
Sewer back up	-	1,219	1,219	-
TOTAL OPERATING EXPENSES	1,250,331	1,023,506	2,273,837	295,570
OPERATING INCOME (LOSS)	(214,056)	(265,068)	(479,124)	(52,591)
NONOPERATING REVENUES (EXPENSES)				
Tap-in fees	33,721	37,500	71,221	-
Taxes	322,167	-	322,167	-
Interest income	25,109	8,080	33,189	-
Other revenue	1,988	-	1,988	-
Gain on disposal of capital assets	-	-	-	3,876
Interest expense	(98,735)	-	(98,735)	(2,609)
TOTAL NONOPERATING REVENUES (EXPENSES)	284,250	45,580	329,830	1,267
CHANGE IN NET ASSETS	70,194	(219,488)	(149,294)	(51,324)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	5,501,394	2,984,396		634,115
NET ASSETS, END OF YEAR	\$ 5,571,588	\$ 2,764,908		\$ 582,791
Adjustment to reflect the consolidation of internal service fun activities related to enterprise funds			(26,734)	
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES			\$ (176,028)	

The accompanying notes are an integral part of these financial statements

**CITY OF GRAND BLANC
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2006**

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,006,011	\$ 761,706	\$ 1,767,717	\$ -
Receipts from interfund services provided	120,753	464,480	585,233	294,139
Cash paid for interfund services provided	(657,610)	(327,010)	(984,620)	
Payments to employees	(396,522)	(276,456)	(672,978)	-
Payments to suppliers	(704,433)	(628,791)	(1,333,224)	(192,368)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(631,801)	(6,071)	(637,872)	101,771
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Taxes	322,167	-	322,167	-
Other revenues	1,988	-	1,988	-
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	324,155	-	324,155	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on bonds and notes payable	(190,000)	-	(190,000)	(22,030)
Interest paid on bonds and notes payable	(100,770)	-	(100,770)	(2,609)
Proceeds from issuance of long-term debt	85,405	-	85,405	-
Acquisition and construction of capital assets	(239,008)	-	(239,008)	(81,008)
Proceeds from sale of capital assets	-	-	-	3,876
Tap-in fees	33,721	37,500	71,221	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(410,652)	37,500	(373,152)	(101,771)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	25,109	8,080	33,189	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(693,189)	39,509	(653,680)	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,370,037	219,034	1,589,071	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 676,848	\$ 258,543	\$ 935,391	\$ -

The accompanying notes are an integral part of these financial statements.

**CITY OF GRAND BLANC
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2006**

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (214,056)	\$ (265,068)	\$ (479,124)	\$ (52,591)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	274,193	120,849	395,042	103,251
Changes in assets and liabilities:				
Accounts receivable	(608)	3,268	2,660	-
Due from other funds	120,753	464,480	585,233	51,160
Due from other governments	(29,656)	-	(29,656)	-
Accounts payable	(128,280)	3,861	(124,419)	(49)
Accrued liabilities	1,621	(1,482)	139	-
Due to other funds	(657,610)	(327,010)	(984,620)	-
Compensated absences	1,842	(4,969)	(3,127)	-
Net cash provided (used) by operating activities	\$ (631,801)	\$ (6,071)	\$ (637,872)	\$ 101,771

The accompanying notes are an integral part of these financial statements.

**CITY OF GRAND BLANC
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
MAY 31, 2006**

<u>ASSETS</u>	<u>AGENCY FUNDS</u>
Cash and cash equivalents	\$ 27,640
Taxes receivable	<u>137,815</u>
<u>TOTAL ASSETS</u>	<u>\$ 165,455</u>
 LIABILITIES	
Due to other governmental units	<u>\$ 165,455</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

CITY OF GRAND BLANC, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Grand Blanc, Michigan, conform to generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

A. Reporting entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Grand Blanc, Michigan (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or functional relationships with the City.

Blended component unit

The City of Grand Blanc Building Authority was incorporated under provisions of Michigan Public Act 31 of 1948 and is governed by a five member board appointed by the City Council. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings. As a result, the City has included in its financial statements a debt service fund, used for the accumulation of resources to pay off the debt.

Discretely presented component units

The City has no component units that are discretely presented in the financial statements.

Joint ventures

The City is a member of the Grand Blanc Community Fire Commission, which provides the protection services to the residents of the Charter Township and City of Grand Blanc. The participating communities provide annual funding for its operations. During the current year, the City contributed \$178,852 for its operations. The City's equity of \$404,090 is recorded within the governmental activities column of the statement of net assets. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The complete financial statements for the Grand Blanc Fire Commission can be obtained from the administrative offices at 117 High Street, Grand Blanc, Michigan 48439.

The City is a member of Grand Blanc Parks and Recreation Commission, which provides recreational services to the residents of the Charter Township and City of Grand Blanc. The participating communities provide annual funding for its operations. During the current year, the City contributed \$118,335 for its operations. The City's equity interest of \$275,899 is recorded within the governmental activities column of the statement of net assets. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating

CITY OF GRAND BLANC, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2006

governments in the near future. Complete financial statements for the Grand Blanc Parks and Recreation Commission can be obtained from the administrative offices at 131 East Grand Blanc Road, Grand Blanc, Michigan 48439.

Jointly governed organization

The City is a member of Grand Blanc District Library Commission, which provides library services to the residents of the Charter Township and City of Grand Blanc. The participating communities provide annual funding for its operations. During the current year, the City contributed \$36,800 for its operation. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Grand Blanc District Library Commission can be obtained from the administrative offices at 4195 West Pasadena, Flint, MI 48504.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus.

CITY OF GRAND BLANC, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2006

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Local Street Fund* accounts for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction.

The *Building Authority Fund* accounts for the servicing of the 1995 Building Authority Bonds and the 1999 Building Authority Bonds.

The government reports the following major proprietary funds:

The *Water and Sewer Funds* are managed by the City's Department of Public Works. Separate funds are maintained for the operations of the water distribution system and sewage collection, pumping and distribution to the County's treatment plant.

CITY OF GRAND BLANC, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2006

Additionally, the government reports the following fund types:

The *Internal Service Fund* accounts for the motor and equipment pool provided to other departments of the government on a cost reimbursement basis.

The *Agency Fund* accounts for assets held by the City as an agent for individuals, private organizations and other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds and of the City's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF GRAND BLANC, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2006

D. Assets, liabilities, and fund equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements.

Investments of the City are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Property taxes attach as an enforceable lien on property as of December 31 each year. City taxes, levied and immediately due on the following July 1, are collected without penalty through August 31, and with penalty thereafter. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available. The City bills and collects its own property taxes, as well as taxes for the county and several school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the Tax Collection Agency Fund. Real and personal property in the City for the 2005 levy had a taxable value of \$267,850,890. The City's charter allows the City to levy 20 mills. The City levied for 2005 general operating 9.9500 mills, streets 1.0000 mill, and water operating .2000 mills for a total of 11.1500 mills. The City has voted levies for water debt service 1.000 mill which expires in 2023 and parks and recreation .9852 mills which expires in 2007. General operating and parks and recreation millage are recorded in the general fund. The water debt levy and water operating millage are recorded in the water fund. The streets millage is recorded in the local street fund.

CITY OF GRAND BLANC, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2006

3. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all roads and streets regardless of their acquisition date or amount.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	31.5
Improvements other than buildings	15-50
Vehicles	3-20
Machinery and equipment	5-20
Infrastructure	15-50

4. Accumulated unpaid vacation, personal, and sick pay

The City's policy allows employees to accumulate earned but unused vacation benefits. Accumulated sick and vacation is accrued when incurred in the proprietary funds. A liability for these amounts is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements.

The total of unpaid sick and vacation pay that is applicable to governmental fund types is reported in the Statement of Net Assets.

All vacation days accumulated must be used by December 31 each year, or the vacation pay will be forfeited. Depending on the employee group, up to five days of accumulated personal days will be paid to each employee at December 31 of each year. Up to 40 sick days may be accumulated by each employee. Any unused sick pay of employees will be paid at fifty percent of the outstanding balance upon retirement only.

CITY OF GRAND BLANC, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2006

5. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. Stewardship, compliance, and accountability Budgetary information

A. Budgetary information

Budgets shown in the financial statements were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the first Monday in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following June 1. The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds.

Informational summaries of projected revenues and expenditures are provided for all other City funds, as well as estimated total costs and proposed methods of financing all capital construction projects.

CITY OF GRAND BLANC, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2006

2. Public hearings are conducted to obtain taxpayer comments.
3. In May, by resolution, the budget is legally enacted on a departmental (activity) basis for the General Fund and on a fund total for the Special Revenue Funds for the ensuing fiscal year, in accordance with Public Act 621 of the State of Michigan.
4. The City Manager, or his designee, is authorized to transfer budgeted amounts within departmental appropriation accounts; however, any revisions that alter the total expenditures of any department must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP).
6. Budget appropriations lapse at year end.
7. The original budget was amended during the year in compliance with the City Charter and applicable state laws. The budget-to-actual expenditures in the financial statements represent the final budgeted expenditures as amended by the City Council.
8. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. There were no encumbrances at year end.

B. Excess of Expenditures Over Appropriations For Budgetary Funds

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended May 31, 2006, the City incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund:			
General government			
Elections	\$ 7,200	\$ 7,763	\$ (563)
Retirement benefits	56,325	57,561	(1,236)
Public service	783,145	1,029,178	(246,033)

CITY OF GRAND BLANC, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2006

Community Development Fund

Public service	\$ 35,000	\$ 299,848	\$ (264,848)
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III. Detailed notes on all funds

A. Deposits and investments

A reconciliation of cash, pooled investments and investments as shown in the basic financial statement for the City's deposits and investments is as follows:

	<u>Carrying Amount</u>
Government-wide Financial Statement Captions:	
Cash and cash equivalents	\$ 3,681,510
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	<u>27,640</u>
 Total	 <u><u>\$ 3,709,150</u></u>
 Notes to Financial Statements:	
Deposits	\$ 1,199,561
Investments	2,508,914
Cash on hand	<u>675</u>
 Total	 <u><u>\$ 3,709,150</u></u>

The City has adopted an official investment policy which is in accordance with investments permitted by Act 20 of the Michigan Public Acts of 1943 as amended, Act 196 PA 1997 (the Act). The Act generally allows the City to deposit funds in banks, savings and loan associations, and credit unions in the State of Michigan. The Act also provides for investment in U.S. government obligations; certificates of deposit of banks, savings and loans, and credit unions; commercial paper; repurchase agreements; bankers' acceptances; and, with some restrictions, mutual funds.

CITY OF GRAND BLANC, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2006

As of May 31, 2006, the City had the following investments.

Investment	Maturity	Fair Value	Credit Rating Range	
			Standard & Poors	Moody's Investor's Services
Treasury Portfolio Class B	n/a	\$ 1,123,157	AAA	Aaa
Government Money Market Funds	n/a	<u>1,385,757</u>	AAA	Aaa
		<u>\$ 2,508,914</u>		

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investments listed above do not have specific maturity dates.

Credit Risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end \$653,863 of the City's bank balance of \$1,131,628 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. However, while uninsured and unregistered, the City's funds are not exposed to custodial credit risk since the securities are held in the counterparty's trust department in the City's name.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. The following investments represent more than 5 percent of

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the City's total investments: Treasury Portfolio Class B and the Governmental Money Market Funds held in the Major Street, Local Street, Water and Sewer Funds. All investments held at year end are reported above.

B. Receivables

Receivables as of year end for the government's governmental and business-type activities in the aggregate, are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Receivables:		
Taxes	\$ 301,709	\$ 14,983
Accounts	10,224	337,755
Intergovernmental	<u>155,069</u>	<u>29,656</u>
 Total receivables	 <u>\$ 467,002</u>	 <u>\$ 382,394</u>

C. Capital Assets

Capital assets activity for the year ended May 31, 2006 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 3,263,385	\$ 425,000	\$ -	\$ 3,688,385
Construction in progress	<u>492,983</u>	<u>82,342</u>	<u>(131,559)</u>	<u>443,766</u>
Total capital assets not being depreciated	<u>3,756,368</u>	<u>507,342</u>	<u>(131,559)</u>	<u>4,132,151</u>
 Capital assets being depreciated:				
Buildings and improvements	2,755,998	278,432	-	3,034,430
Improvements other than buildings	494,150	62,418	-	556,568
Machinery, vehicles and equipment	1,559,260	88,623	(56,769)	1,591,114
Infrastructure	<u>1,321,186</u>	<u>1,588,058</u>	<u>-</u>	<u>2,909,244</u>
Total capital assets being depreciated	<u>6,130,594</u>	<u>2,017,531</u>	<u>(56,769)</u>	<u>8,091,356</u>

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities (continued)				
Less accumulated depreciation				
Buildings and improvements	(1,400,636)	(91,987)	-	(1,492,623)
Improvements other than buildings	(156,077)	(34,291)	-	(190,368)
Machinery, vehicles and equipment	(933,231)	(123,698)	56,769	(1,000,160)
Infrastructure	<u>(52,860)</u>	<u>(101,499)</u>	<u>-</u>	<u>(154,359)</u>
Total accumulated depreciation	<u>(2,542,804)</u>	<u>(351,475)</u>	<u>56,769</u>	<u>(2,837,510)</u>
Total capital assets being depreciated, net	<u>3,587,790</u>	<u>1,666,056</u>	<u>-</u>	<u>5,253,846</u>
 Governmental activities capital assets, net	 <u>\$ 7,344,158</u>	 <u>\$ 2,173,398</u>	 <u>\$ (131,559)</u>	 <u>\$ 9,385,997</u>

CITY OF GRAND BLANC, MICHIGAN
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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated:				
Land and improvements	\$ 195,120	\$ -	\$ -	\$ 195,120
Construction in progress	<u>500</u>	<u>45,100</u>	<u>(500)</u>	<u>45,100</u>
Total capital assets not being depreciated	<u>195,620</u>	<u>45,100</u>	<u>(500)</u>	<u>240,220</u>
Capital assets being depreciated:				
Buildings and improvements	153,385	-	-	153,385
Improvements other than buildings	18,256,281	192,239	(109,472)	18,339,048
Machinery and equipment	<u>152,017</u>	<u>1,669</u>	<u>-</u>	<u>153,686</u>
Total capital assets being depreciated	<u>18,561,683</u>	<u>193,908</u>	<u>(109,472)</u>	<u>18,646,119</u>
Less accumulated depreciation				
Buildings and improvements	(37,933)	(3,164)	-	(41,097)
Improvements other than buildings	(7,105,255)	(385,072)	109,472	(7,380,855)
Machinery and equipment	<u>(144,643)</u>	<u>(6,806)</u>	<u>-</u>	<u>(151,449)</u>
Total accumulated depreciation	<u>(7,287,831)</u>	<u>(395,042)</u>	<u>109,472</u>	<u>(7,573,401)</u>
Total capital assets being depreciated, net	<u>11,273,852</u>	<u>(201,134)</u>	<u>-</u>	<u>11,072,718</u>
Business-type activities capital assets, net	<u>\$ 11,469,472</u>	<u>\$ (156,034)</u>	<u>\$ (500)</u>	<u>\$ 11,312,938</u>

CITY OF GRAND BLANC, MICHIGAN
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 40,192
Public service	73,909
Public safety	25,468
Public works	110,407
Highways and streets	<u>101,499</u>

Total depreciation expense – governmental activities **\$ 351,475**

Business-type activities:

Water	\$ 274,193
Sewer	<u>120,849</u>

Total depreciation expense – business-type activities **\$ 395,042**

Construction commitments

The City has active construction projects as of May 31, 2006. The projects include street construction in areas with newly developed housing, and widening and construction of existing streets and bridges. The commitment for the projects is financed by gas and weight taxes, property taxes, and other local sources. At year-end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Town Square	\$ 392,328	\$ 182,672
ITS – Signals	22,585	227,415
2006 Paving Program	28,853	424,829
Rust Park Fencing	<u>-</u>	<u>50,000</u>
Total	<u>\$ 443,766</u>	<u>\$ 884,916</u>

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D. Payables

Accounts payable and accrued liabilities in the primary government are as follows:

	Governmental Activities	Business-type Activities
Accounts	\$ 16,473	\$ 176,792
Wages, fringe benefits and other accrued liabilities	85,080	23,759
Intergovernmental	14,871	-
Accrued interest payable	<u>23,069</u>	<u>16,515</u>
Total	<u>\$ 139,493</u>	<u>\$ 217,066</u>

E. Interfund Receivables, Payables and Transfers

Due to:	Due from:						Total
	General	Building Authority	Nonmajor Governmental	Water	Sewer	Internal Service	
General	\$ -	\$ -	\$ 80,977	\$ -	\$ 10,298	\$ 135,581	\$ 226,856
Local Street	13,959	-	161,999	1,849	1,849	-	179,656
Building Authority	305,279	-	-	-	-	-	305,279
Nonmajor							
Governmental	9,220	65,544	-	2,061	3,034	-	79,859
Water	12,907	-	57,657	-	47,807	-	118,371
Internal Service	-	-	-	164	-	-	164
Total	<u>\$341,365</u>	<u>\$ 65,544</u>	<u>\$ 300,633</u>	<u>\$4,074</u>	<u>\$ 62,988</u>	<u>\$ 135,581</u>	<u>\$ 910,185</u>

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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Transfer to:	Transfer from:			
	General	Local Street	Nonmajor Governmental	Total
Local Street	\$ -	\$ -	\$ 50,000	\$ 50,000
Nonmajor Governmental	<u>133,350</u>	<u>26,969</u>	<u>116,481</u>	<u>276,800</u>
Total	<u>\$ 133,350</u>	<u>\$ 26,969</u>	<u>\$ 166,481</u>	<u>\$ 326,800</u>

Transfers are used to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and to move gas and weight taxes collected in the Major Street Fund to the Local Street Fund to subsidize that fund.

F. Long-Term Debt

Long-term obligations for the year ended May 31, 2006, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental activities:					
1993 Michigan Transportation Fund bonds due in annual installments ranging from from \$30,000 to \$40,000 through 2011; interest ranging from 3.25% to 5.375%	\$ 180,000	\$ -	\$ (30,000)	\$ 150,000	\$ 35,000
1995 Building Authority bonds due in annual installments of \$100,000 through 2006; interest ranging from 3.8% to 5.0%	100,000	-	(100,000)	-	-
1999 Building Authority bonds due in annual installments of \$30,000 through 2006; interest ranging from 3.4% to 4.5%	30,000	-	(30,000)	-	-
2001 Installment Note payable due in annual installments ranging from \$25,000 to \$30,000 through 2010; interest at 5.25%	135,000	-	(25,000)	110,000	25,000

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental activities (continued):					
2001 Michigan Transportation Fund bonds due in annual installments ranging from from \$50,000 to \$175,000 through 2018; interest at 2%	\$ 1,350,000	\$ -	\$ (50,000)	\$ 1,300,000	\$ 75,000
2005 Mannor Property Note Payable due in annual installments of \$25,000 to \$35,000 through 2015; interest at 4.25%	310,000	-	(30,000)	280,000	25,000
2005 Motorola Capital Lease due in annual installments of \$8,094 through 2006; interest at 3.17%	8,094	-	(8,094)	-	-
Equipment Capital Lease due in annual installments of \$13,220 through 2006; interest at 5.85%	13,220	-	(13,220)	-	-
Equipment Capital Lease due in annual installments of \$8,810 to \$9,901 through 2008; interest at 5.85%	28,050	-	(8,810)	19,240	9,339
Compensated absences	<u>125,736</u>	<u>240,608</u>	<u>(233,594)</u>	<u>132,750</u>	<u>56,115</u>
	<u>\$ 2,280,100</u>	<u>\$ 240,608</u>	<u>\$ (528,718)</u>	<u>\$ 1,991,990</u>	<u>\$ 225,454</u>
Business-type activities					
2003 Drinking Water Revolving Fund bonds due in annual installments ranging from \$150,000 to \$235,000 through 2023; interest at 2.5%	\$ 3,450,000	\$ -	\$ (155,000)	\$ 3,295,000	\$ 155,000
2003 Drinking Water Revolving Fund bonds due in annual installments ranging from \$18,336 to \$50,000 through 2023; interest at 2.5%	647,931	85,405	(35,000)	698,336	35,000
Compensated absences	<u>36,143</u>	<u>61,423</u>	<u>(65,050)</u>	<u>32,516</u>	<u>15,088</u>
	<u>\$ 4,134,074</u>	<u>\$ 146,828</u>	<u>\$ (255,050)</u>	<u>\$ 4,025,852</u>	<u>\$ 205,088</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for those funds are included as part of the above totals for governmental activities. Also, for the governmental activities, compensated absences are generally liquidated by the General Fund.

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Resources are transferred from the Major Street and Local Street Funds to the Debt Service Fund to repay the Michigan Transportation bonds. General Fund resources are used to pay the Building Authority bonds. Property taxes are levied to pay a portion of the 2003 Drinking Water Revolving Fund Bonds and operating revenues will be used to pay the remainder of the 2003 Drinking Water Revolving Fund Bonds from the Water Fund. General Fund resources will be used to pay the installment and equipment notes payable. The original amount of governmental activities bonds, notes payable, and capital leases issued in prior years was \$2,528,940. The original amount of business-type activities bonds issued in prior years was \$4,282,931. During the year, Drinking Water Revolving Fund Bonds totaling \$85,405 were issued to fund current year capital asset additions.

Annual debt service requirements to maturity for general obligation bonds and notes payable are as follows:

Year Ending <u>May 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 160,000	\$ 74,552	\$ 190,000	\$ 96,717
2008	160,000	67,782	195,000	91,905
2009	175,000	60,652	200,000	86,967
2010	200,000	52,396	210,000	81,842
2011	130,000	44,579	215,000	76,530
2012 - 2016	840,000	126,710	1,145,000	298,773
2017 - 2021	175,000	3,719	1,305,000	146,523
2022 - 2023	-	-	533,336	11,888
Total	<u>\$1,840,000</u>	<u>\$ 430,390</u>	<u>\$3,993,336</u>	<u>\$ 891,143</u>

Annual debt service requirements to maturity for capital leases payable are as follows:

Year Ending <u>May 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 9,339	\$ 1,156
2008	9,901	595
Total	<u>\$ 19,240</u>	<u>\$ 1,751</u>

In the governmental activities, the equipment acquired through capital lease had a total value of \$63,104.

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IV. Other information

A. Risk management

The City is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits provided to employees and participates in the Michigan Municipal League (MML) risk pool for claims relating to property loss, torts, errors and omissions. The City pays unemployment claims on a reimbursement basis. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Retirement plans

Defined Contribution - I.C.M.A.

During the year ended May 31, 1994, the City began participation in a defined contribution plan. The plan is a single employer defined contribution plan administered by the International City Managers Association. The plan covers all full-time employees that elected to participate in the plan. The City has no fiduciary responsibilities for the plan administration or investment of the funds.

The City's pension plan was organized under Public Act #135 of 1945 as amended, State of Michigan. Employees are eligible to participate in the pension plan after one month of service with a minimum age requirement of 21. The plan provides for employees to be 100% vested after three years of service, with 0% vesting prior to that point. The minimum required contribution for plan participants is 11.5% of base salary to be paid by the employer. Employees did not contribute to the plan during the year.

During the year, contributions totaling \$14,687 were made by the employer in accordance with contribution requirements established by council.

All investments are handled through ICMA. The plan allows loans to participants. Plan assets do not consist of any employer or related party investments.

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Defined Benefit - Michigan Municipal Employee Retirement System

Plan description

During the year ended May 31, 1996, the City of Grand Blanc elected to participate in the Michigan Municipal Employees Retirement System (MERS) which is an agent multiple-employer public employee retirement system (PERS) that is administered by the State of Michigan. The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The City has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole. The reports can be obtained by writing to Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

Membership in the plan at December 31, 2005, the date of the latest actuarial valuation, is comprised of 34 active members, 1 vested former member, and 1 retiree and beneficiary.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 60 with 10 or more years of service. The plan also provides for early retirement at age 50 with 25 or more years of service for police patrol unit, and at age 55 with 25 or more years of service for administration, DPW, and Police command. Election of early retirement is subject to reduction of benefits as outlined below.

Participants are entitled to a retirement benefit equal to the credited service at the time of membership termination multiplied by 2.5% of the member's final average compensation (FAC) for police patrol unit, 2.25% of the member's FAC for administration and police command and 2.0% of the member's FAC for DPW. The retirement allowance is reduced 1/2% of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available.

Funding policy

The plan provides that the employer/employees contribute amounts necessary to fund the actuarially determined benefits. The City makes employer contributions in accordance with funding requirements determined by MERS' actuary. Benefit provisions and contribution obligations have been established by union contract.

For fiscal year ended May 31, 2006, the DPW group was required to contribute 4.34% of wages and the Police Command was required to contribute 2.06% of wages. Neither administration nor police employees are required to make contributions.

Pension contributions withheld from employees amounted to \$3,870 during the year ended May 31, 2006.

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Annual Pension Cost

For the year ended May 31, 2006, the City's annual pension cost of \$222,065 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of an actuarial valuation at December 31, 2004. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% for inflation, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases and (c) the assumption that benefits will not increase after retirement. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2005, the date of the most recent actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
5/31/04	\$73,444	100%	\$0
5/31/05	227,862	100	0
5/31/06	222,065	100	0

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a/c)</u>
12/31/03	\$1,443,333	\$1,761,082	\$317,749	82.0%	\$733,867	43.0%
12/31/04	4,346,643	6,420,140	2,073,497	67.7%	2,081,499	99.6%
12/31/05	4,813,274	6,596,608	1,783,334	73.0%	1,986,441	89.8%

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C. Post-employment benefits

Substantially all employees are eligible to receive post-employment benefits upon retirement in the form of health care, dental, and life insurance benefits. These benefits are provided by contractual agreement and are paid annually by the General Fund. The City funds these costs on a pay-as-you-go basis. The amounts are recorded as an expenditure when the fund liability is incurred. The benefit amounts incurred totaled \$57,560 during the year ended May 31, 2006. The total number of eligible retirees amounted to ten individuals at May 31, 2006. By contractual agreement, the City pays 100% of these costs. There are no provisions for employee contributions.

Upcoming reporting change:

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending May 31, 2010. Management is currently assessing the impact of this new accounting standard on the City’s financial statement for future reporting periods.

D. Contingencies

The City receives financial assistance from other governmental agencies in the form of grants. The disbursements of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any financial statements herein or on the overall position of the City.

The City is a subject to various legal proceedings arising in the course of providing public services to City residents. However, in the opinion of the City’s attorney and management, the resolution of these matters will not have a material effect, if any, on the financial condition of the City.

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E. Construction code revenues/expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed revenues. The City chose the latter because historically the expenditures have exceeded revenues. The activity related to construction code activity for the year ended May 31, 2006 is as follows:

Beginning deficit	\$ (122,343)
Construction permit revenue	\$ 58,307
Expenditures:	
Professional services	<u>(99,786)</u>
Revenue over (under) expenditures	<u>(41,479)</u>
Ending deficit	<u><u>\$ (163,822)</u></u>

F. Federal awards

It is required by the Michigan Department of Transportation (MDOT) that governmental units report total federal awards for Highway Research, Planning and Construction pertaining to their unit. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act. The reason for this requirement is that the City is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended May 31, 2006, the City of Grand Blanc did have \$500,000 in total federal awards (local force revenue applicable to force account expenditures plus any other federal grants). As a result, an audit for compliance under the Single Audit Act has been performed.

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G. Restatements

For the City's Water Fund, adjustments were made to record the liability for long-term compensated absences and to record accrued interest payable. The net effect of these errors caused the City's liabilities to be understated and their net assets to be overstated. These errors have been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$ 5,540,998
Adjustment for compensated absences	(21,054)
Adjustment for accrued interest payable	<u>(18,550)</u>
Beginning net assets, as restated	\$ <u>5,501,394</u>

For the City's Sewer Fund, an adjustment was made to record the liability for long-term compensated absences. The net effect of this error caused the City's liabilities to be understated and their net assets to be overstated. These errors have been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$ 2,999,485
Adjustment for compensated absences	<u>(15,089)</u>
Beginning net assets, as restated	\$ <u>2,984,396</u>

For the City's Internal Service Fund, an adjustment was made to correct capital assets that had been depreciated past their historical cost, for which the net effect caused the City's assets to be understated and their net assets to be overstated. This error has been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$ 613,565
Adjustment for accumulated depreciation	<u>20,550</u>
Beginning net assets, as restated	\$ <u>634,115</u>

For the Governmental Activities on the Statement of Net Assets, adjustments have been recorded to record delinquent property taxes receivable and accrued interest payable. In addition, errors were made in accounting for compensated absences and the allocation of the internal service fund net assets. Finally, the internal service fund prior period adjustment also had an effect on beginning of the year net assets. These errors have been corrected and reclassifications have been made and had the following effect on the beginning net assets:

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Beginning net assets, as previously reported	\$ 9,052,945
Adjustment for delinquent property taxes receivable	102,493
Adjustment for accrued interest payable	(25,770)
Adjustment for compensated absences	191,383
Adjustment for allocation of internal service fund net assets	(9,677)
Internal service fund prior period adjustment	<u>20,550</u>
Beginning net assets, as restated	<u>\$ 9,331,924</u>

For the Business-type Activities on the Statement of Net Assets, adjustments have been recorded to record their portion of the internal service fund net assets. In addition, the Water and Sewer fund prior period adjustments also had an effect on beginning of the year net assets. These errors have been corrected and reclassifications have been made and had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$ 8,540,483
Adjustment for allocation of internal service fund net assets	9,677
Water and Sewer fund prior period adjustments	<u>(54,693)</u>
Beginning net assets, as restated	<u>\$ 8,495,467</u>

* * * * *

Combining and Individual Fund Financial Statements

Nonmajor Governmental Funds

**CITY OF GRAND BLANC
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
MAY 31, 2006**

	Special Revenue	Debt Service	Capital Project	Total
ASSETS				
Cash and cash equivalents	\$ 263,748	\$ 553	\$ -	\$ 264,301
Due from other funds	185,367	57,657	57,609	300,633
Due from other governments	36,065	-	-	36,065
TOTAL ASSETS	\$ 485,180	\$ 58,210	\$ 57,609	\$ 600,999
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to other funds	\$ 25,365	\$ -	\$ 54,494	\$ 79,859
FUND BALANCES				
Reserved for debt service	-	58,210	-	58,210
Reserved for capital projects	-	-	3,115	3,115
Unreserved, undesignated	459,815	-	-	459,815
TOTAL FUND BALANCES	459,815	58,210	3,115	521,140
TOTAL LIABILITIES AND FUND BALANCES	\$ 485,180	\$ 58,210	\$ 57,609	\$ 600,999

**CITY OF GRAND BLANC
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2006**

	Special Revenue	Debt Service	Capital Project	Total
REVENUES				
Intergovernmental:				
Federal	\$ 299,848	\$ -	\$ -	\$ 299,848
State	349,353	-	-	349,353
Interest	21,998	5,281	-	27,279
TOTAL REVENUES	671,199	5,281	-	676,480
EXPENDITURES				
Current:				
Public service	299,848	-	-	299,848
Highways and streets	243,072	-	-	243,072
Debt service				
Principal	-	80,000	-	80,000
Interest and fiscal charges	-	63,450	-	63,450
TOTAL EXPENDITURES	542,920	143,450	-	686,370
REVENUES OVER (UNDER) EXPENDITURES	128,279	(138,169)	-	(9,890)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	143,450	-	143,450
Transfers (out)	(166,481)	-	-	(166,481)
TOTAL OTHER FINANCING SOURCES (USES)	(166,481)	143,450	-	(23,031)
NET CHANGE IN FUND BALANCE	(38,202)	5,281	-	(32,921)
FUND BALANCES, BEGINNING OF YEAR	498,017	52,929	3,115	554,061
FUND BALANCES, END OF YEAR	\$ 459,815	\$ 58,210	\$ 3,115	\$ 521,140

Special Revenue Funds

Major Street Fund - To account for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction.

Capital Improvements - To account for non-tax revenues set aside for public improvements.

Community Development Fund - To account for revenues earned and expenditures incurred by the City as a sub-grantee of the Community Development Block Grant Program. The program includes projects for the museum elevator, the master plan update, and other community enrichment activities.

**CITY OF GRAND BLANC
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
MAY 31, 2006**

	Major Street	Capital Improvements	Community Development	Total
ASSETS				
Cash and cash equivalents	\$ 263,748	\$ -	\$ -	\$ 263,748
Due from other funds	161,999	23,368	-	185,367
Due from other governments	36,065	-	-	36,065
TOTAL ASSETS	\$ 461,812	\$ 23,368	\$ -	\$ 485,180
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to other funds	\$ 14,315	\$ 11,050	\$ -	\$ 25,365
FUND BALANCES				
Unreserved, undesignated	447,497	12,318	-	459,815
TOTAL LIABILITIES AND FUND BALANCES	\$ 461,812	\$ 23,368	\$ -	\$ 485,180

**CITY OF GRAND BLANC
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2006**

	Major Street	Capital Improvements	Community Development	Total
REVENUES				
Intergovernmental revenue:				
Federal	\$ -	\$ -	\$ 299,848	\$ 299,848
State	349,353	-	-	349,353
Interest	21,998	-	-	21,998
TOTAL REVENUES	371,351	-	299,848	671,199
EXPENDITURES				
Current:				
Public service	-	-	299,848	299,848
Highways and streets	243,072	-	-	243,072
TOTAL EXPENDITURES	243,072	-	299,848	542,920
REVENUES OVER (UNDER) EXPENDITURES	128,279	-	-	128,279
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(166,481)	-	-	(166,481)
NET CHANGE IN FUND BALANCE	(38,202)	-	-	(38,202)
FUND BALANCES, BEGINNING OF YEAR	485,699	12,318	-	498,017
FUND BALANCES, END OF YEAR	\$ 447,497	\$ 12,318	\$ -	\$ 459,815

CITY OF GRAND BLANC
MAJOR STREET SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED MAY 31, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Intergovernmental:				
State	\$ 30,000	\$ 343,500	\$ 349,353	\$ 5,853
Interest	5,000	5,000	21,998	16,998
TOTAL REVENUES	35,000	348,500	371,351	22,851
EXPENDITURES				
Current:				
Highways and streets	258,565	258,565	243,072	15,493
REVENUES OVER (UNDER) EXPENDITURES	(223,565)	89,935	128,279	38,344
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(170,035)	(170,035)	(166,481)	3,554
NET CHANGE IN FUND BALANCE	(393,600)	(80,100)	(38,202)	41,898
FUND BALANCE, BEGINNING OF YEAR	485,699	485,699	485,699	-
FUND BALANCE, END OF YEAR	<u>\$ 92,099</u>	<u>\$ 405,599</u>	<u>\$ 447,497</u>	<u>\$ 41,898</u>

**CITY OF GRAND BLANC
CAPITAL IMPROVEMENTS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED MAY 31, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenue:				
Federal	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Current:				
Public service	-	-	-	-
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	12,318	12,318	12,318	-
FUND BALANCE, END OF YEAR	\$ 12,318	\$ 12,318	\$ 12,318	\$ -

**CITY OF GRAND BLANC
COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED MAY 31, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenue:				
Federal	\$ 5,000	\$ 35,000	\$ 299,848	\$ 264,848
EXPENDITURES				
Current:				
Public service	5,000	35,000	299,848	(264,848)
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ -	\$ -

Debt Service Funds

1993 Transportation Bond Debt Service - To account for the servicing of the 1993 Transportation Bonds.

2001 Transportation Bond Debt Service - To account for the servicing of the 2001 Transportation Bonds.

Water Project Debt Service - To account for the servicing of the 1991 General Obligation Water Bonds.

**CITY OF GRAND BLANC
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
MAY 31, 2006**

	1993 Transportation Bond Debt Service	2001 Transportation Bond Debt Service	Water Project Debt Service	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 553	\$ 553
Due from other funds	-	-	57,657	57,657
TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,210</u>	<u>\$ 58,210</u>
FUND BALANCES				
Reserved for debt service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,210</u>	<u>\$ 58,210</u>

**CITY OF GRAND BLANC
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2006**

	1993 Transportation Bond Debt Service	2001 Transportation Bond Debt Service	Water Project Debt Service	Total
REVENUES				
Interest	\$ -	\$ -	\$ 5,281	\$ 5,281
EXPENDITURES				
Debt service:				
Principal	30,000	50,000	-	80,000
Interest and fiscal charges	8,925	54,525	-	63,450
TOTAL EXPENDITURES	38,925	104,525	-	143,450
REVENUES OVER (UNDER) EXPENDITURES	(38,925)	(104,525)	5,281	(138,169)
OTHER FINANCING SOURCES (USES)				
Transfers in	38,925	104,525	-	143,450
NET CHANGE IN FUND BALANCE	-	-	5,281	5,281
FUND BALANCES, BEGINNING OF YEAR	-	-	52,929	52,929
FUND BALANCES, END OF YEAR	\$ -	\$ -	\$ 58,210	\$ 58,210

Fiduciary Funds

Agency Funds

Tax Collection - To account for the collection and payment to the county, school districts, and others for which property taxes are collected by the City on their behalf.

**CITY OF GRAND BLANC
TAX COLLECTION AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED MAY 31, 2006**

	Balance June 1, 2005	Additions	Deductions	Balance May 31, 2006
<hr/>				
ASSETS				
Cash and cash equivalents	\$ 26,358	\$ 11,682,976	\$ 11,681,694	\$ 27,640
Taxes receivable	102,493	12,192,472	12,157,150	137,815
	<hr/>			
TOTAL ASSETS	\$ 128,851	\$ 23,875,448	\$ 23,838,844	\$ 165,455
	<hr/>			
LIABILITIES				
Due to other governmental units	\$ 128,851	\$ 12,387,240	\$ 12,350,636	\$ 165,455
	<hr/>			

Capital Assets Used in Operation of Governmental Funds

To account for capital assets not used in proprietary fund operations.

CITY OF GRAND BLANC
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE
MAY 31, 2006

GOVERNMENTAL FUNDS CAPITAL ASSETS:

Land	\$ 3,688,385
Building and improvements	3,034,430
Improvements other than buildings	556,568
Machinery, vehicles and equipment	220,274
Infrastructure	2,909,244
Construction in progress	<u>443,766</u>
 TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	 <u><u>\$ 10,852,667</u></u>

INVESTMENT IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:

General Fund	\$ 7,499,657
Special Revenue Funds	<u>3,353,010</u>
 TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	 <u><u>\$ 10,852,667</u></u>

Note: This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF GRAND BLANC
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
MAY 31, 2006

	Land	Buildings and Improvements	Improvements Other than Buildings	Machinery, Vehicles and Equipment	Infrastructure	Construction in Progress	Total
General government:							
City hall	\$ 1,315,701	\$ 1,162,540	\$ -	\$ 88,065	\$ -	\$ -	\$ 2,566,306
Public safety:							
Police department	-	-	-	81,343	-	-	81,343
Fire department	67,778	500,000	-	-	-	-	567,778
Public works	10,000	123,000	-	22,750	-	-	155,750
Public service	2,294,906	1,248,890	556,568	28,116	-	-	4,128,480
Highways and streets	-	-	-	-	2,909,244	443,766	3,353,010
	<u>\$ 3,688,385</u>	<u>\$ 3,034,430</u>	<u>\$ 556,568</u>	<u>\$ 220,274</u>	<u>\$ 2,909,244</u>	<u>\$ 443,766</u>	<u>\$ 10,852,667</u>

Note: This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF GRAND BLANC
SCHEDULE OF CHANGES IN GOVERNMENTAL FUNDS CAPITAL ASSETS
BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED MAY 31, 2006

	Balance June 1, 2005	Additions	Deletions	Balance May 31, 2006
General government:				
City hall	\$ 2,558,691	\$ 7,615	\$ -	\$ 2,566,306
Public safety:				
Police department	81,343	-	-	81,343
Fire department	567,778	-	-	567,778
Public works	155,750	-	-	155,750
Public service	3,362,630	765,850	-	4,128,480
Highways and streets	1,814,169	1,670,400	(131,559)	3,353,010
	<u>\$ 8,540,361</u>	<u>\$ 2,443,865</u>	<u>\$ (131,559)</u>	<u>\$ 10,852,667</u>

Note: This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

Long-Term Debt

To account for long-term liabilities expected to be financed from governmental funds.

CITY OF GRAND BLANC
SCHEDULE OF DEBT SERVICE REQUIREMENTS
1993 MICHIGAN TRANSPORTATION FUND BONDS
MAY 31, 2006

Fiscal Year Ended May 31	Interest August 1	Interest February 1	Principal August 1	Total Requirements
2007	\$ 3,897	\$ 3,022	\$ 35,000	\$ 41,919
2008	3,022	2,125	35,000	40,147
2009	2,125	1,075	40,000	43,200
2010	1,075	-	40,000	41,075
	<u>\$ 10,119</u>	<u>\$ 6,222</u>	<u>\$ 150,000</u>	<u>\$ 166,341</u>

CITY OF GRAND BLANC
SCHEDULE OF DEBT SERVICE REQUIREMENTS
INSTALLMENT LOAN - 2001 LAND CONTRACT
MAY 31, 2006

Fiscal Year Ended May 31	Interest October 1	Interest April 1	Principal October 1	Total Requirements
2007	\$ 2,887	\$ 2,231	\$ 25,000	\$ 30,118
2008	2,231	1,575	25,000	28,806
2009	1,575	788	30,000	32,363
2010	788	-	30,000	30,788
	<u>\$ 7,481</u>	<u>\$ 4,594</u>	<u>\$ 110,000</u>	<u>\$ 122,075</u>

CITY OF GRAND BLANC
SCHEDULE OF DEBT SERVICE REQUIREMENTS
2001 MICHIGAN TRANSPORTATION FUND BONDS
MAY 31, 2006

Fiscal Year Ended May 31	Interest August 1	Interest February 1	Principal August 1	Total Requirements
2007	\$ 26,688	\$ 25,328	\$ 75,000	\$ 127,016
2008	25,328	23,922	75,000	124,250
2009	23,922	22,469	75,000	121,391
2010	22,469	20,469	100,000	142,938
2011	20,469	18,406	100,000	138,875
2012	18,406	15,828	125,000	159,234
2013	15,828	13,250	125,000	154,078
2014	13,250	10,625	125,000	148,875
2015	10,625	7,437	150,000	168,062
2016	7,437	3,719	175,000	186,156
2017	3,719	-	175,000	178,719
	<u>\$ 188,141</u>	<u>\$ 161,453</u>	<u>\$ 1,300,000</u>	<u>\$ 1,649,594</u>

CITY OF GRAND BLANC
SCHEDULE OF DEBT SERVICE REQUIREMENTS
2005 NOTE PAYABLE - MANNOR PROPERTIES
MAY 31, 2006

Fiscal Year Ended May 31	Interest October 1	Interest April 1	Principal October 1	Total Requirements
2007	\$ 5,152	\$ 4,692	\$ 25,000	\$ 34,844
2008	4,692	4,232	25,000	33,924
2009	4,232	3,680	30,000	37,912
2010	3,680	3,128	30,000	36,808
2011	3,128	2,576	30,000	35,704
2012	2,576	1,932	35,000	39,508
2013	1,932	1,288	35,000	38,220
2014	1,288	644	35,000	36,932
2015	644	-	35,000	35,644
	<u>\$ 27,324</u>	<u>\$ 22,172</u>	<u>\$ 280,000</u>	<u>\$ 329,496</u>

Table 1

City of Grand Blanc, Michigan
General Governmental Expenditures by Function (1) - Unaudited
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Service</u>	<u>Public Works</u>	<u>Highways and Streets</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Total</u>
1997	\$677,391	\$1,300,588	\$727,082	\$208,465	\$452,637	\$185,000	\$466,404	\$4,017,567
1998	1,068,778	1,462,342	795,497	238,781	320,313	57,189	526,167	4,469,067
1999	995,748	1,498,343	659,895	221,143	506,263	- (2)	384,378	4,265,768
2000	950,955	1,673,303	716,416	206,216	515,882	124,400	399,379	4,586,551
2001	1,501,415	1,755,397	736,055	226,281	731,521	-	396,310	5,346,979
2002	925,226	1,775,777	897,106	229,563	532,700	-	1,134,277 (3)	5,494,649
2003	1,234,598	1,994,499	813,996	204,146	1,996,110	-	732,302 (3)	6,975,651
2004	1,488,323 (4)	1,998,328	818,905	222,474	1,142,591	-	338,888	6,009,505
2005	956,602	2,057,195	936,408	291,338	2,054,752 (4)	-	284,004	6,580,295
2006	1,207,713	2,053,626	1,329,026	326,840	1,645,872	-	350,229	6,913,306

NOTES:

(1) Includes General, Special Revenue, Debt Service, and Capital Project Funds.

(2) The City purchased land using Special Revenue Funds.

(3) The City made an early redemption of certain outstanding bonded debt.

(4) The City incurred significant costs in purchasing properties, clean and fixing storm sewers relating to a flooding problem. The City received grants from FEMA to supplement the cost.

Table 2

City of Grand Blanc, Michigan
General Governmental Revenues by Source (1) - Unaudited
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Intergovernmental</u>	<u>Charges for Services</u>	<u>Fines and Forfeits</u>	<u>Interest</u>	<u>Miscellaneous</u>	<u>Total</u>
1997	\$2,197,819	\$89,176	\$1,579,272	\$348,668	\$36,038	\$122,939	\$21,668	\$4,395,580
1998	2,379,090	128,075	1,261,723	354,956	30,190	109,456	20,382	4,283,872
1999	2,512,526	86,097	1,850,510	356,687	32,710	66,540	41,631	4,946,701
2000	2,595,123	92,120	1,617,122	369,341	40,658	236,027	30,749	4,981,140
2001	2,661,931	98,188	1,455,160	370,296	30,142	168,697	42,106	4,826,520
2002	2,788,548	124,124	1,414,225	395,588	29,431	130,455	39,734	4,922,105
2003	2,921,012	99,301	2,602,101 (2)	419,007	33,976	66,202	31,950	6,173,547
2004	2,757,268	137,537	2,736,795 (2)(3)	419,811	30,464	31,701	110,869	6,224,445
2005	3,113,741	128,667	2,355,519 (2)(4)	441,518	31,256	55,028	43,616	6,169,345
2006	3,228,268	158,926	2,253,898	475,915	30,591	122,373	77,187	6,347,158

NOTE:

- (1) Includes General, Special Revenue, Debt Service Funds, and Capital Project Funds.
- (2) Significant revenues from federal road projects were received during 2003, 2004, and 2005.
- (3) Significant revenues from federal funds in the general fund were received during 2004.
- (4) Significant revenues from federal funds in local street special revenue fund were received during 2005.

Table 3

City of Grand Blanc, Michigan
Property Tax Levies and Collections - Unaudited
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections to Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Percent of Delinquent Taxes to Tax Levy</u>
1997	\$2,220,846	\$2,132,065	96.0%	\$88,781	\$2,220,167	100.0%	\$679	0.0%
1998	2,361,595	2,303,890	97.6%	57,705	2,359,638	99.9%	1,957	0.1%
1999	2,510,841	2,458,996	97.9%	42,373	2,506,607	99.8%	4,234	0.2%
2000	2,643,386	2,587,875	97.9%	51,754	2,639,629	99.9%	3,757	0.1%
2001	2,777,141	2,692,938	97.0%	77,518	2,770,456	99.8%	6,685	0.2%
2002	2,906,846	2,799,275	96.3%	81,113	2,880,388	99.1%	26,458	0.9%
2003	3,061,639	2,940,292	96.0%	57,308	2,997,600	97.9%	64,039	2.1%
2004	3,145,269	3,007,880	95.6%	69,573	3,077,453	97.8%	67,816	2.2%
2005	3,402,594	3,249,620	95.5%	121,416	3,371,036	99.1%	31,558	0.9%
2006	3,539,270	3,415,033	96.5%	135,402	3,550,435	100.3%	124,237	3.5%

NOTE:

- (1) Real Property Taxes that become delinquent are paid in full by the Genesee County Delinquent Tax Revolving Fund. As a result, percent of collections for Real Property Taxes is 100 percent.

Table 4

City of Grand Blanc, Michigan
Assessed and State Equalized Value of Taxable Property - Unaudited
Last Ten Fiscal Years

Fiscal Year	<u>Real/Qualified Property</u>			<u>Personal Property</u>			<u>Total</u>		
	State Equalized/ Assessed Value	Taxable Value	Ratio of Total State Equalized Value to Taxable Value	State Equalized/ Assessed Value	Taxable Value	Ratio of Total State Equalized Value to Taxable Value	State Equalized/ Assessed Value	Taxable Value	Total State Equalized Value to Taxable Value
1997	\$177,892,489	\$173,996,762	97.8%	\$8,787,700	\$8,788,800	100.0%	\$186,680,189	\$182,785,562	97.9%
1998	194,922,630	184,489,470	94.6%	10,336,750	9,880,375	95.6%	205,259,380	194,369,845	94.7%
1999	208,815,920	195,707,822	93.7%	10,598,020	10,598,020	100.0%	219,413,940	206,305,842	94.0%
2000	219,041,400	204,000,030	93.1%	11,736,800	11,736,800	100.0%	230,778,200	215,736,830	93.5%
2001	226,603,320	210,641,840	93.0%	10,414,607	10,414,607	100.0%	237,017,927	221,056,447	93.3%
2002	232,949,190	219,991,180	94.4%	11,199,930	11,199,930	100.0%	244,149,120	231,191,110	94.7%
2003	258,012,690	230,276,954	89.3%	11,300,940	11,300,940	100.0%	269,313,630	241,577,894	89.7%
2004	273,251,505	239,146,915	87.5%	11,554,880	11,549,190	100.0%	284,806,385	250,696,105	88.0%
2005	280,225,095	247,472,235	88.3%	11,571,650	11,571,650	100.0%	291,796,745	259,043,885	88.8%
2006	290,133,120	255,944,970	88.2%	11,176,180	11,176,180	100.0%	301,309,300	267,121,150	88.7%

NOTE:

- (1) Assessed values are established annually by the county and equalized by the state.
Assessed values represent 50% of market value as determined by the Michigan State Tax Commission on the fourth Monday in May of each year.
- (2) Beginning with fiscal year ended May 31, 1996, taxable value replaced state equalized value.
- (3) Beginning with fiscal year ended May 31, 2004, the City levied qualified real property.

City of Grand Blanc, Michigan
Property Tax Rates - Direct and Overlapping Governments
(Per \$1,000 of State Equalized Valuation) - Unaudited
Last Ten Fiscal Years

<u>Municipality</u>	<u>Type of Levy</u>	<u>2005-06</u>	<u>2004-05</u>
City of Grand Blanc	Operating	\$9.9500	\$9.9500
	Streets	1.0000	1.0000
	Water improvements	1.2000	1.2000
Grand Blanc Parks and Recreation	Improvements	0.9852	0.9852
State of Michigan	State education tax	6.0000	6.0000
Genesee County	Operating	5.5095	5.5095
	Parks	0.4849	0.4849
	Library	0.7500	0.7563
	Paramedic	0.4849	0.4849
	Airport	0.4849	0.4849
	MTA	0.7949	0.7949
Grand Blanc School District - #25-030	Operating	17.3275	17.6344
	Debt	4.5015	4.5000
	Building and site	1.0000	0.9768
Genesee Intermediate School District	Operating	3.5361	3.5361
Community College	Operating	1.9907	1.9907
	Debt	<u>0.6900</u>	<u>0.6900</u>
TOTALS		\$56.6901	\$56.9786

Table 5

<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2000-01</u>	<u>1999-00</u>	<u>1998-99</u>	<u>1997-98</u>	<u>1996-97</u>
\$9.9500	\$9.9500	\$9.9500	\$9.9500	\$9.9500	\$9.9500	\$9.9500	\$9.9500
1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
1.2000	1.3000	1.2000	1.2000	1.2000	1.2000	1.2000	1.2000
0.9852	0.9936	0.9936	0.9936	1.0000	1.0000	1.0000	1.0000
5.0000	6.0000	6.0000	6.0000	6.0000	6.0000	6.0000	6.0000
5.5228	5.5512	5.5735	5.5780	5.5948	5.5948	5.5948	5.5948
0.4861	0.4886	0.4906	0.4910	0.4925	0.4925	0.4925	0.4925
0.7603	0.7681	0.7738	0.7773	0.7895	0.7895	0.7895	0.6895
0.4861	0.4886	0.4906	0.4910	0.4925	0.4925	0.4925	0.4925
0.4861	0.4886	0.4906	0.4910	0.4925	0.4925	0.4925	0.4925
0.3959	0.3980	0.3996	0.3988	0.4000	0.4000	0.4000	0.4000
17.6344	17.7480	18.0000	17.8311	18.0000	18.0000	18.0000	18.0000
1.8000	1.8000	1.8000	1.8000	0.0000	0.0000	0.0000	0.2500
0.9779	0.9872	0.9923	1.0000	1.0000	1.0000	1.0000	1.0000
3.5469	3.5672	3.5835	3.5894	3.6032	3.6032	3.6032	3.6032
1.9966	2.0080	2.0172	1.3694	1.3745	1.3745	1.3745	1.3745
<u>0.7500</u>	<u>0.8200</u>	<u>0.8500</u>	<u>0.5000</u>	<u>0.5000</u>	<u>0.5000</u>	<u>0.5000</u>	<u>0.5000</u>
\$52.9783	\$54.3571	\$54.6053	\$53.4606	\$51.8895	\$51.8895	\$51.8895	\$52.0395

Table 6

City of Grand Blanc, Michigan
Ratio of Net General Bonded Debt
To State Equalized Value and Net Bonded Debt Per Capita - Unaudited
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>		<u>State Equalized Valuation (in Thousands)</u>	<u>(2) Gross Bonded Debt (in Thousands)</u>	<u>Debt Service Monies Available (in Thousands)</u>	<u>Debt Payable From Enterprise Revenue</u>	<u>Net Bonded Debt (in Thousands)</u>	<u>Ratio of Net Bonded Debt to State Equalized Value</u>	<u>Net Debt Per Capita</u>
1997	7,760	(1)	\$186,680	\$3,632	\$630	\$526	\$2,476	1.33%	\$319
1998	7,760	(1)	205,259	3,177	674	429	2,074	1.01%	267
1999	7,760	(1)	219,414	2,811	698	345	1,768	0.81%	228
2000	7,760	(1)	230,778	2,589	776	257	1,556	0.67%	201
2001	7,760	(1)	237,129	2,433	827	169	1,437	0.61%	185
2002	8,242	(3)	244,149	3,084	189	80	2,815	1.15%	341
2003	8,242	(3)	269,313	2,605	64	-	2,541	0.94%	308
2004	8,242	(3)	284,806	6,015	64	-	5,951	2.09%	722
2005	8,242	(3)	291,796	6,252	64	3,450	2,738	0.94%	751
2006	8,242	(3)	301,309	5,853	64	3,295	2,494	0.83%	303

Source:

(1) 1990 U.S. Census.

(2) Includes all general obligation notes and bonds.

(3) 2000 U.S. Census.

Table 7

City of Grand Blanc, Michigan
Computation of Legal Debt Margin - Unaudited
May 31, 2006

Total assessed value	<u>\$267,850,890</u>
Debt limit - 10 percent of total assessed value	\$26,785,089
Amount of debt applicable to debt limit	<u>3,993,336</u>
Legal debt margin	<u>\$22,791,753</u> =====

Table 8

City of Grand Blanc, Michigan
Computation of Direct and Overlapping Debt- Unaudited
May 31, 2006

<u>Date of Financial Information</u>	<u>Jurisdiction</u>	<u>Amount Applicable to Net Debt Outstanding</u>	<u>Percentage Applicable to City of Grand Blanc</u>	<u>Total Overlapping Debt Applicable to City of Grand Blanc</u>
Direct:				
5/31/06	City of Grand Blanc	<u>\$5,852,576</u>	100.00%	<u>\$5,852,576</u>
Overlapping:				
6/30/05	Mott Community College	\$87,450,000	2.80%	\$2,448,600
9/30/05	Genesee County	140,680,019	2.61%	3,671,748
6/30/05	Grand Blanc School District	<u>106,180,000</u>	23.81%	<u>25,281,458</u>
	Total overlapping	<u>\$334,310,019</u>		<u>\$31,401,806</u>
	Totals	<u>\$340,162,595</u> =====		<u>\$37,254,382</u> =====

Table 9

City of Grand Blanc, Michigan
Ratio of Annual Debt Service Expenditures For
General Bonded Debt to Total General Expenditures - Unaudited
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Total Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures</u>	<u>Ratio of Debt Service to Total General Expenditures</u>
1997	\$283,228	\$183,176	\$466,404	\$4,017,567	11.6%
1998	364,095	162,072	526,167	4,469,067	22.8%
1999	245,044	139,334	384,378	4,265,770	9.0%
2000	275,000	124,379	399,379	4,586,551	9.0%
2001	285,000	111,310	396,310	5,346,979	7.4%
2002	1,005,000	129,277	1,134,277	5,494,649	20.6%
2003	608,333	123,968	732,301	6,975,650	10.5%
2004	244,243	94,645	338,888	6,009,509	5.6%
2005	200,000	84,004	284,004	6,594,887	4.3%
2006	265,000	85,229	350,229	6,913,306	5.1%

NOTES:

- (1) Does not include general bonded debt issued for water and sewer utility purposes, which is paid from Water and Sewer Fund revenues.
- (2) Includes General, Special Revenue, Debt Service, and Capital Project Funds.

Table 10

City of Grand Blanc, Michigan
Demographic Statistics - Unaudited
Last Ten Fiscal Years

<u>Year</u>	<u>Population</u>		<u>(2) Per Capita Income</u>	<u>Median Age</u>	<u>Education Level in Years of Formal Schooling</u>	<u>(3) Enrollment</u>	<u>(4) Unemployment Rate</u>
1997	7,760	(1)	\$20,402	32.7	12.2	5,891	5.9%
1998	7,760		20,749	32.7	12.2	n/a	5.4%
1999	7,760		21,371	32.7	12.2	5,921	5.4%
2000	7,760		22,012	32.7	12.2	5,989	5.2%
2001	7,760		22,672	32.7	12.2	6,382	7.1%
2002	8,242	(5)	23,352	32.7	12.2	6,431	8.7%
2003	8,242		22,168	32.7	12.2	7,643	6.7%
2004	8,242		22,168	32.7	12.2	7,313	8.9%
2005	8,242		29,117	32.7	12.2	7,624	8.9%
2006	8,242		N/A	N/A	N/A	N/A	N/A

Sources:

(1) 1990 U.S. Census

(2) Federal Revenue Sharing Entitlement figures and estimates based on a 2.8% growth for 1995; 3.0% growth for 1996; 2.2% growth for 1997; 1.7% growth for 1998; 3.0% growth for 1999; 3.0% growth for 2000 and 2003

(3) Superintendent of Schools enrollment count

(4) Michigan Employment Security Commission, Genesee County

(5) 2000 U.S. Census

N/A Not Available

Table 11

City of Grand Blanc, Michigan
Property Value, Construction, and Bank Deposits - Unaudited
Last Ten Fiscal Years

Assessment Date <u>December 31</u>	Commercial/Industrial <u>Construction</u>		Residential <u>Construction</u>		Bank Deposits (1) (in Thousands)
	<u>Number of Units</u>	<u>Value</u>	<u>Number of Units</u>	<u>Value</u>	
1997	18	\$3,237,063	161	\$3,938,843	\$3,352,526
1998	33	2,440,259	143	3,104,461	3,365,584
1999	23	2,166,649	184	2,855,938	3,402,491
2000	32	2,524,270	150	3,262,688	3,643,612
2001	16	1,495,313	89	2,369,055	3,634,128
2002	16	1,787,390	49	2,210,528	3,522,542
2003	49	5,378,441 (5)	43	2,121,232	3,710,109
2004	48	389,445	60	1,109,415	3,782,297
2005	40	1,610,857	38	1,424,756	4,049,676
2006	(2)	(2)	(2)	(2)	(2)

NOTES:

- (1) Amounts reported are for Genesee County, as provided by the Federal Deposit Insurance Corporation
- (2) This information will not be available until December 31, 2006
- (3) Estimated actual or market value which is approximately two times the assessed value
- (4) Significant reductions occurred as a result of adjustments to the values of property for General Motors, Consumers Energy, and the Grand Blanc Golf and Country Club
- (5) Amount includes two permits totaling \$3,648,000 for water softening project

Property Value (3)		
<u>Commercial</u>	<u>Residential</u>	<u>Industrial and Utility</u>
\$75,336,680	\$266,159,960	\$11,549,860
79,038,540	330,525,446	8,080,920 (4)
86,001,660	344,114,560	7,966,580
86,001,660	344,114,560	7,966,580
108,302,980	364,627,060	15,368,200
119,153,520	409,867,060	9,606,680
106,598,880	430,117,900	9,739,300
114,991,310	435,357,980	10,100,900
133,886,920	436,237,020	10,142,300
(2)	(2)	(2)

Table 12

City of Grand Blanc, Michigan
Principal Taxpayers - Unaudited
May 31, 2006

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Value</u>	<u>Percentage of Total Taxable Value</u>
Perry Place Apartments, LLC	Apartment Complex	\$4,986,620	1.87%
Bridgewood Common Shopping Center	Retail Office Complex	4,539,680	1.70%
CMS Country House Investors	Apartment Complex	3,828,980	1.43%
General Motors Corporation	Auto Industry	2,999,260	1.12%
ABE Briarwood	Nursing Home	2,683,740	1.00%
American House-Grand Blanc LLC	Apartment Complex	2,215,250	0.83%
Grand Blanc Center LLC	Retail Complex	2,103,460	0.79%
Consumers Energy	Utility Supplier	1,970,320	0.74%
Grand Blanc Golf & Country Club	Golf Course	1,909,110	0.71%
York Properties	Apartment Complex	1,826,140	0.68%
		\$29,062,560	10.47%

Table 13

City of Grand Blanc, Michigan
Miscellaneous Statistics - Unaudited
May 31, 2006

FORM OF GOVERNMENT	Strong Mayor-Council
FIRE PROTECTION:	
Number of stations	3
Number of firemen and officers	60
POLICE PROTECTION:	
Number of stations	1
Number of policemen and officers	15
EDUCATION (SOURCE - SUPERINTENDENT OF SCHOOLS - PUBLIC SCHOOLS ONLY):	
Attendance centers	11
Number of classrooms	307
Number of teachers	396
Number of students	7,624
RECREATION AND CULTURE:	
Number of parks	4
Number of libraries	1
Number of volumes	83,000
EMPLOYEES (FULL-TIME):	
Classified service	34
MUNICIPAL WATER DEPARTMENT:	
Number of consumers	2,506
Average daily consumption	1,654,000
Miles of water mains	48
SEWERS:	
Sanitary sewers miles	48
Storm sewers miles (maintained by City)	48
AREA:	
Miles of Streets:	
City major streets	7.21
City local streets	23.29
Number of street lights	222

CITY OF GRAND BLANC

MANAGEMENT COMMENTS AND RECOMMENDATIONS

MAY 31, 2006

A. Interfund Receivables/Payables

During the audit, we noted that the City has several interfund balances that have been carried for many years.

Recommendation: We recommend that the City review and investigate these accounts to determine whether they are valid balances. For those that are deemed to have valid purposes, we recommend that the City transfer the money to the applicable funds. For those that are deemed not to have valid purposes or for those where the funds do not have the money to repay the other funds, we recommend that the City write off the interfund receivables/payables.

B. Treasurer's Wages/Benefits

Audit tests revealed that the Treasurer's wages and benefits are charged to the Water Fund and General Fund, with the Water Fund covering the majority of the costs.

Recommendation: We recommend that the Treasurer's wages and benefits be charged primarily to the General Fund because of the nature of the position. We also recommend that the Water Fund be charged only for those wages and benefits costs directly attributable to actual time spent by employees working on Water Fund related activities.

C. Employee Timesheets

During the audit, it came to our attention that employees do not typically sign timesheets/time cards.

Recommendation: We recommend that employees sign their timesheets/time cards, in addition to the approval of the applicable department head. This practice is especially important for any wages charged to federal grants and is required by OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*.

REPORT ON EXPENDITURES OF FEDERAL AWARDS

CITY OF GRAND BLANC, MICHIGAN

YEAR ENDED MAY 31, 2006



REHMANN ROBSON

Certified Public Accountants

GRAND BLANC, MICHIGAN
REPORT ON EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MAY 31, 2006
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City of Grand Blanc, Michigan
Schedule of Expenditures of Federal Awards
For The Year Ended May 31, 2006

Federal/Pass-Through Grantor Program Title	Federal CFDA Number	Federal or (Pass-Through) Grant Number	Current Year Federal Expenditures
<u>Department of Housing and Urban Development</u>			
Passed-Through Genesee County			
Community Development Block Grant - 2005	14.218	N/A	\$ 299,848
<u>U.S. Dept. of Justice</u>			
Passed-Through State of Michigan Department of			
Community Mental Health			
Byrne Memorial Formula Grant	16.579	N/A	34,228
<u>U.S. Environmental Protection Agency</u>			
Passed-Through State of Michigan			
Drinking Water Revolving Fund	66.468	N/A	58,887
<u>Department of Homeland Security</u>			
Passed-Through Michigan State Police			
Hazard Mitigation Grant Program	97.039	1346.29	15,693
Hazard Mitigation Grant Program	97.039	1346.30	176,983
Hazard Mitigation Grant Program	97.039	1346.88	533,575
Total Department of Homeland Security			726,251
TOTAL FEDERAL AWARDS			\$ 1,119,214

NOTES:

- (1) The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Grand Blanc and is presented on the modified accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non Profit Organizations.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

July 27, 2006

City Council
City of Grand Blanc
Grand Blanc, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Grand Blanc***, which collectively comprise the *City of Grand Blanc's* basic financial statements, as of and for the year ended May 31, 2006 and have issued our report thereon dated July 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ***City of Grand Blanc, Michigan's*** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Grand Blanc, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of *City of Grand Blanc, Michigan* in a separate letter dated July 27, 2006.

This report is intended solely for the information and use of the finance committee, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

July 27, 2006

City Council
City of Grand Blanc
Grand Blanc, Michigan

Compliance

We have audited the compliance of the *City of Grand Blanc* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended May 31, 2006. The *City of Grand Blanc's* major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the *City of Grand Blanc's* management. Our responsibility is to express an opinion on the *City of Grand Blanc's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *City of Grand Blanc's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *City of Grand Blanc's* compliance with those requirements.

In our opinion, the *City of Grand Blanc* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2006.

Internal Control Over Compliance

The management of the *City of Grand Blanc* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Grand Blanc's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the financial statements of the governmental activities, the business-type activities,, each major fund, and the aggregate remaining fund information of the *City of Grand Blanc*, as of and for the year ended May 31, 2006, and have issued our report thereon dated March 16, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the *City of Grand Blanc's* basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".

CITY OF GRAND BLANC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED MAY 31, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

*Unqualified on
financial statements*

Internal controls over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not

considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial

statements noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not

considered to be material weaknesses?

_____ yes X none reported

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to
be reported in accordance with Circular A-133,
Section 510(a)?

_____ yes X no

Identification of Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

97.039

Hazard Mitigation Grant Program

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

CITY OF GRAND BLANC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED MAY 31, 2006

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

CITY OF GRAND BLANC

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED MAY 31, 2006

There were no audit findings in the prior year.